S. HRG. 98-1025

BUDGET REFORM ACT OF 1983

HEARING

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

ON

S. 20

TO PROVIDE FOR A 2-YEAR BUDGET PROCESS, AND FOR OTHER PURPOSES

MAY 5, 1983

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BUDGET REFORM ACT OF 1983

THURSDAY, MAY 5, 1983

U.S. SENATE,
COMMITTEE ON GOVERNMENTAL AFFAIRS,
Washington, DC.

The committee met, at 10 a.m., in room SD-342, Dirksen Senate Office Building, Hon. William V. Roth, Jr. (chairman of the committee) presiding.

Present: Senators Roth and Rudman.

OPENING STATEMENT OF SENATOR ROTH

Chairman ROTH. The committee will be in order.

I am reconvening the Governmental Affairs Committee today to hear additional testimony on S. 20, the Federal Budget Reform Act.

Momentum is building for the Congress to move to a 2-year budget process. The report by the Senate study group, chaired by Senators Percy and Ribicoff, has recommended that we adopt a biennial process.

The House Rules Committee task force on the budget process is also taking a serious look at biennial systems.

My colleague, Senator Hatfield, chairman of the Senate Appropriations Committee, has cosponsored the legislation before us.

As I have said many times, I believe the 1974 Budget Act has been a positive step for forcing Congress to consider overall spending and the impact of the Federal Government on the economy.

The current process is an improvement, a major improvement, over the budgetary void which existed before, but our job in strengthening the congressional budgeting procedures which began almost 10 years ago is not finished.

Congress remains encumbered by the budget process to the detriment of other responsibilities, such as oversight, and consideration of complex issues such as national defense or foreign policy.

In addition, I am not sure that the people back home, State and local governments that receive the Federal funds, are that much better off under the current budget process.

Indeed, the glaring problem of the uncertainty that State and local governments experience with their Federal fund levels still exists. This uncertainty makes it very difficult for them to budget and to plan efficiently.

I am not going to go over my entire statement but I want to conclude by saying that we are, indeed, fortunate to have with us a new Governor representing the National Governors' Association.

I don't want to make any further comments because I don't want to steal any thunder from my good friend and colleague, Senator Rudman, who is here to introduce the Governor.

[Senator Roth's prepared statement follows:]

PREPARED STATEMENT OF SENATOR ROTH

I am reconvening the Governmental Affairs Committee today to hear additional testimony on S. 20, the Federal Budget Reform Act.

Momentum is building for the Congress to move to a two-year budget process. The report by the Senate study group, chaired by Senators Pearson and Ribicoff, has recommended we adopt a biennial process. The House Rules Committee task force on the budget process is also taking a serious look at biennial systems. And my colleague, Senator Hatfield, chairman of the Senate Appropriations Committee, has cosponsored the legislation that lays before us.

I believe that as the word spreads on the merits of a biennial system, we will find more and more proponents for it.

As I have said many times, I believe the 1974 Budget Act has been a positive step toward forcing Congress to consider overall spending and the impact of the Federal budget on the economy. The current process is an improvement over the budgetary vacuum which existed before.

But our job in strengthening congressional budgeting procedures which began almost ten years ago is not finished. Congress remains encumbered by the budget process to the detriment of other responsibilities such as oversight and consideration of complex issues such as defense or foreign policy.

In addition, I am not sure that the people back home—State and local governments that receive the Federal funds—are any better off under the current budget process. Indeed, the glaring problem of the uncertainty that State and local governments experience with their Federal funding levels still exists. This uncertainty makes it very difficult for them to budget and to plan efficiently.

This problem of uncertainty underscores the need for changes in the Federal budget process. S. 20 would address this problem by forcing the Federal Government to take the first year of each Congress to prepare the budget for the following two-year period. I have had a chart prepared to demonstrate exactly how this timetable would work. This legislation would remove much of the uncertainty of constantly changing budget decisions. It would help eliminate the disruption caused by year-to-year funding.

Let me add that biennial budgeting is already an effective tool in some States. And I believe that a similar process at the Federal level would resolve many of the problems facing all of us who are responsible for the formulation and the administration of the Federal budget.

We are very fortunate to have with us today as our first witness, Governor John H. Sununu of New Hampshire, representing the National Govenors Association. Although in office only a brief time, he has already proven himself a thoughtful and articulate Governor. We welcome his views on the problems of the Federal budget process and on his experience with a biennial budget in New Hampshire.

Senator RUDMAN. Mr. Chairman, Thank you, very much.

It is an unusual pleasure to be sitting on the other side of the table this morning.

Chairman ROTH. Do I get to ask you questions now? [Laughter.]

Senator RUDMAN. That is not included.

OPENING STATEMENT OF SENATOR RUDMAN

Senator RUDMAN, I wanted to participate in the hearing today, Mr. Chairman, but as I explained to you, our Appropriations Committee will be hearing the testimony of Secretary Weinberger this morning on the MX issue.

I must be there. But I did want to introduce my Governor to you, John Sununu of New Hampshire, who won the election last year and assumed office in January.

I have known Governor Sununu for a long time. He brings a very interesting approach to State government. He is a graduate of

MIT with a degree in chemical engineering. He has been a consultant to numerous major American corporations and has a great understanding of the fiscal problems, of business and government, and has brought to New Hampshire this year a very vigorous and fresh approach toward holding down government spending, putting in a biennial budget, holding taxes at their present level and essentially bringing first rate management to our State.

So I am particularly delighted that he has agreed to come on behalf of the association and speak before this committee, a committee of which I am, of course, a member. So I know that his testimony will be of great value to the committee during its deliberations.

I present Governor Sununu to you.

Chairman ROTH. I thank you for taking the time, Senator Rudman. I regret, as you do, that you can't stay here. Again, I want to welcome you, Governor Sununu. I thought with a name like that probably you were Governor of Hawaii or something.

Mr. SUNUNU. It used to be Smith and no one ever paid attention. [Laughter.]

Chairman ROTH. But please proceed.

TESTIMONY OF JOHN H. SUNUNU, GOVERNOR OF THE STATE OF NEW HAMPSHIRE

Mr. SUNUNU. Thank you very much, Mr. Chairman, and thank you, Senator Rudman, for the introduction.

Mr. Chairman, I am pleased to be here, speaking obviously not only for the National Governors' Association, but also for the State of New Hampshire. I was flattered as a freshman Governor to be asked to come down here and then I realized that the older and more experienced Governors knew better, but I am here to testify and hope that we might be of some service.

The National Governors' Association welcomes this opportunity. It is certainly clear that the Federal budget process has an impact on our State budgets and we are pleased at the effort that you are making to review the Federal-State relationship in this area. Your efforts to strengthen the intergovernmental system are widely known, Mr. Chairman, and this inquiry into the budget matters is enhanced by your determination to establish a process that produces more cooperation among the partners of the intergovernmental system.

In my statement today I would like to focus on the following areas. First of all, the very obvious one, the importance of the congressional budget process. Second, I would like to suggest that there are certain intergovernmental problems which result from the specific practices associated with the Federal budget. Finally, I plan to discuss the extent to which the Budget Reform Act of 1983 addresses these problems.

Although we as Governors have taken note of the changes in the budget process because of the opportunities it offers Congress and because of our own direct experience with it in recent years, most States do not use procedures similar to the Federal Government's when we develop our own budgets.

State procedures in a sense are more highly consolidated than the Federal process. Many States use a biennial budget technique, and our timetables are very much different from the Federal schedule. In most States the dual Federal appropriations and budget procedures are actually rolled into one. Often the important authorization provisions that affect the spending levels are incorporated along with approved spending levels into what is effectively an omnibus budget appropriations and authorization bill.

That is I think very different from historical practices at the Federal level.

There are 21 States now that operate on the 2-year budget cycle. Most of those States begin the 2-year budgets in the odd years, although there are three States that do begin in the even years. This is a point that I will come back to in later discussion because it is relevant to the budget calendar that is suggested in the proposed legislation.

Although the regional distribution is fairly even, it is interesting to note that most of the larger States have not adopted the biennial process. In fact, there has been no change in decisions made by States on biennial budgeting since 1978–79. In that year Florida adopted the biennial budgeting process and Alabama went back to the annual budgeting process. However, I understand that Governor Wallace has proposed legislation to return his State to the biennial process.

All but four States use a fiscal year beginning on July 1; 20 of the 21 biennial budget States use that fiscal year. New York's fiscal year begins in April, Texas begins in September, and Alabama and Michigan begins in October. In most of the States the Governor's budget is presented to the legislature early in the year with work to be completed by the July 1 deadline. That corresponds to the schedule in my State. We are hoping to complete our budget early in June—certainly no later than June 30, which is the real deadline for us.

With this as a background I would like to turn to a discussion of some of the problems that our States face within the Federal budget process. The topics I will cover include certainty, flexibility, and the intergovernmental partnership.

By far the most important of these issues relative to the process at the State level is the certainty. We feel very strongly that anything that increases certainty with regard to Federal spending levels and program requirements is a very significant and important improvement.

You have emphasized in the proposed legislation the need for longer leadtime in your own work on budget procedures, and I strongly support that perspective. Federal-aid accounts for almost one-fourth of State and local expenditures. Any lack of information or lack of certainty on such a large percentage of our resources clearly makes our budgeting process very difficult. For our colleagues in local government, who generally have to wait for the States to respond to whatever has been initiated at the Federal level, lack of certainty is also a tremendous problem.

A look back over the recent budget process at the Federal level might bring many an objective observer to appreciate the significance of the plight we are in at the State level.

Summarizing what happened regarding the fiscal year 1982 budget, for example, helps to illustrate my point. In March, around the time when many States were enacting their budgets for the coming year, the President submitted his budget. In April, which was 3 months before the beginning of most State fiscal years, we were examining House and Senate alternatives and struggling to interpret the early steps in the reconciliation process. By June we were evaluating the Senate and House reconciliation bills and examining the administration recission and deferral proposals for fiscal year 1981.

These together seemed to challenge virtually every assumption underlying the budgets that most of our States had adopted in the previous year. Then in July came the omnibus reconciliation substitute, which we understand was not even available to Members of Congress until 6 hours before the final vote. In July and August there was the tax bill. That tax bill contained provisions which would automatically be incorporated into the tax codes of 21 States, resulting in a significant loss of revenue to those States.

Finally, in September the President offered new spending cuts affecting fiscal year 1982 budget authority, with 18.5 percent of the proposed reductions coming from grant programs on which the States had planned.

In December Congress approved the third continuing appropriations resolution for the year containing spending levels that were to be retroactive to October 1, increasing that uncertainty. So for most of us at the State level, one-fourth of our revenues during a very significant and crucial time period were subject not only to uncertainty but to a tremendous swinging back and forth regarding the perception we had as to what would be available to us.

I think it is truly remarkable to review the documents from that period and to remind ourselves of the magnitude and scope of that reconciliation bill itself. It contained major new block grants with a multitude of procedural changes and requirements. It contained provisions that contemplated reductions in the Federal matching rate for medicaid with enormous potential fiscal consequences for the States. It made numerous changes in the administrative requirements of AFDC, child-support enforcement programs, food stamp programs, and child nutrition programs. It contained significant funding cuts for a number of other State and local programs.

The fiscal year 1983 experience was better but not very much better. Before Congress recessed on October 1, 1982, it had actually passed only 2 of the 13 appropriations bills. The first continuing resolution for fiscal year 1983 covered only about 2½ months and required States to review both the House and Senate versions of the appropriation bills, literally hundreds of pages of legislation, to determine exactly what the resolution meant for our specific programs.

Even then some of the important terms were ambiguously defined. Ambiguous definition, I note, has become a State-of-the-art practiced well in Washington and has in itself tremendous implications for what we do at the State level.

The States faced the prospect of a new continuing resolution when Congress returned from the election year recess. As it turned out only one more continuing appropriations bill was passed, and

work was completed on four more of the regular appropriations bills albeit months after the deadlines that were set in the budget act. That in itself raised havoc in a number of States which had difficulty because of uncertainty overfunding for some of the major programs that they were involved with.

I have described here only our efforts to determine what funding levels we might expect in the grant-in-aid programs, but that really is just the beginning of the story for most of the States. The cuts don't automatically take effect; we have to decide how to implement them.

The problem is compounded if the cuts become effective in the middle of a State fiscal year, as many did in fiscal year 1982. In this case the impact of any cut in service levels is doubled because only half a year remains over which we can spread the effect of that entire cut. For example if in the last quarter of the fiscal year, States are told to cut $50 million from a $200 million program, we have no more funds to spend in the remainder of that fiscal year.

This means we have to displace employees and disrupt the program for the last 3 months of the year. Then in the next fiscal year we have to crack down on the program and reduce the level of spending to $150 million to maintain that $50 million cut. The timing of the funding changes as well as the magnitude of the changes themselves are vitally important from the State perspective.

Mr. Chairman, you know the importance of certainty in the intergovernmental fiscal relationship. I have attempted to provide some illustration of it here for you.

The Federal budget procedures have caused three major problems for the States. First of all, the States do not know what funding level the programs they administer will have with any degree of certainty.

Second, major unexpected funding changes reduce the cost effectiveness of grant programs.

Third, the speed with which reconciliation is accomplished does not permit adequate time for consultation and therefore creates efficiency problems for the States.

Suffice it to say in summary that a lack of certainty adversely affects all grant-in-aid programs, from the individual services provided under AFDC to the largest construction programs. Constantly changing signals produces delays, mistakes, extreme frustration, and disappointment for citizens relying on these programs. They help in a sense to explain the dissatisfaction with Government that many of our citizens have and that we find widespread today. We must do what we can on all fronts to turn this around.

I think that the proposed legislation may make some contribution in that direction.

Another problem that the States face within the Federal process is a lack of program flexibility. The States have long maintained that with increased flexibility we could manage Federal programs more effectively and more responsibly. This is true in times of Federal funding cutbacks as well as in times of Federal expansion—and in a sense is probably even more true in times of cutbacks.

In fact, little progress has been made at the congressional level in recent years to increase the flexibility for States to manage Fed-

eral programs and to direct funds to the most pressing problems facing our citizens.

As you know, the general revenue sharing program was cut off for State governments, eliminating this opportunity of filling in the cracks in the categorical system. Moreover, the block grants fell short of their initial promise, being passed too late to allow adequate leadtime incorporating sizable reductions to be implemented in the middle of State fiscal years, providing severely limited transfer authority, and leaving approximately 450 categorical programs untouched.

Finally, a major factor that the States must face in the budget process is that the Federal Government spends very little time analyzing the effect that some of its decisions will have on us.

The impact upon the States was barely discussed during the reconciliation process or in the tax debates, as noted above. Both of these had enormous impacts on us. Just achieving enactment of a State and local fiscal note requirement in the previous Congress was a major undertaking.

Mr. Chairman, in light of the problems I have outlined, we, as Governors have reviewed the legislative proposal you have developed with great interest.

On balance, we believe that the Budget Reform Act of 1983 would improve certainty, flexibility, and the intergovernmental partnership, but we do note that problems would remain.

Let me give you an explanation of how I think S. 20 would affect the three problem areas.

First of all, clearly, efforts must be made by the Federal Government to stablize budget plans in a timely fashion. The budgeting and appropriations procedures incorporated in S. 20 provide major opportunities for the Federal Government to give States more notice of funding levels and program changes they might expect.

However, the State experience suggests that no budgeting procedure solves the problem of inaccurate forecasting that has plagued Government at all levels, in part because of multiple budget projections and revisions at the Federal level.

In New Hampshire, where we have always had a biennial budget process, I can speak with some experience. Since 1969, with one single exception, our State has had a special legislative session during every second year of the biennial.

The specific reasons were different each time. Besides overly optimistic economic projections which led to shortfalls in revenue, another one of the major causes throughout the past decade has been significant changes in projections of Federal aid.

Proposed S. 20 would allow States to project revenues on current appropriations rather than just on past performance.

This alleviates much of the need to prognosticate at the State level or to attempt to make crystal ball calculations.

I think New Hampshire's experience has been repeated in many other States. Five other biennial budget States held special budget sessions in 1982 and so did four annual budget States.

In almost all States, whether they used an annual or biennial budget, the debate on the budget was intense, even if 1982 was an off year for budgeting purposes as it was scheduled to be in some of the biennial budget States.

The timing difference between the Federal fiscal year proposed in S. 20 and the fiscal year used by most States will limit the certainty provided by the new timetable proposed in S. 20.

As you know, most States operate on a July 1 to June 30 fiscal year.

In these cases, the Governor's budget is usually prepared during the previous fall and is presented to the legislature early in the year, usually January or February. In my State, the date is February 15.

According to my calculations, States using an annual budget would find that they had very good information available for even-numbered Federal fiscal years, but limited data available for the odd years. S. 20 thus would certainly be an improvement for them, but not a complete solution.

For biennial budget States, the States preparing their budgets in the even years—only 3 of the 21—would be most helped, because they would have good advance knowledge of Federal spending for three-quarters of their budget periods by the time the legislatures begin their deliberations. States using odd-year schedules would have knowledge of Federal decisions affecting only 6 months of their budget periods.

Despite these limitations, we believe the schedule laid out in S. 20 would make some improvement in the information available to States.

Much will depend on the ability of Congress to keep to the new schedule, which will no doubt be subject to the same pressures as the current time table and may even be intensified because the decisions will be affecting a 2-year cycle.

Also affecting certainty are the provisions in S. 20 regarding reconciliation. From the perspective of budget control, the authority to undertake reconciliation at any time is an important consideration.

The 60-day timeframe provided is certainly preferable to current practice.

In fact, given the important decisions made in the reconciliation process, even more time would probably be needed to accommodate hearings and other fact finding.

Moreover, the emphasis that S. 20 puts on reconciliation by requiring two-thirds majority to change the budget resolution and a simple majority for reconciliation suggests that reconciliation will be the preferred method for addressing budget overruns.

For this reason, we view with concern the increased reliance on reconciliation, even though we know the process is a highly effective budget control device.

Our concern would be alleviated if areas for reconciliation would be limited to those areas where overruns were being experienced.

This would focus congressional attention on areas of growth and spare budget categories where growth already had been curtailed.

Before leaving the certainty question, I wish to make one more point. If because of the complicated politics that surround the budget process every year, it is impossible to make broad reforms this year we hope you will seek other avenues to increase certainty in the budget process.

Advanced appropriations is one way that greater certainty could be achieved, and we are available at any time to work with you to determine which programs are the highest priority targets and to achieve congressional approval for wider applications of this useful technique.

The timetable established in S. 20 provides that every other year be set aside for oversight activities. This would allow the opportunity for indepth review of program goals, accomplishments, and administrative requirements and would permit State officials the opportunity to consult with Congress about changes in the program.

We would hope that this would provide opportunities to build greater flexibility in the system and to strengthen the partnership between the State and the Federal Government.

Mr. Chairman, we greatly appreciate your efforts and those of your colleagues, Senator Ford and Senator Quayle, who are also studying ways to improve the budget process.

We wish you success in your efforts and pledge to work with you in any way that would be helpful to alleviate the uncertainty that now exists for State governments regarding the Federal budget process, to increase flexibility in the grant programs and to strengthen the Federal State partnership.

Thank you, very much, Mr. Chairman.

Chairman ROTH. Thank you, Governor Sununu, for a very thoughtful and helpful statement.

I was interested in your written statement on page 12 where you noted the emphasis that S. 20 puts on reconciliation by requiring a two-thirds majority to change the budget resolution and a simple majority for reconciliation suggests that reconciliation will be the preferred method for addressing budget overruns.

Would you suggest that perhaps in that second year we ought to make reconciliations, have the same two-thirds majority?

Mr. SUNUNU. Our only concern is that, having seen the difference between trying to coalesce a super majority and obtaining a regular majority, there should be a recognition that S. 20 makes it significantly easier to reconcile than to revise the budget resolution.

We would suggest that some advance thought be given to this and that some mechanism be established so that reconciliation does not become the norm but rather the exception.

Chairman ROTH. Would it be helpful, for example, in the second year to provide that changes within a certain percentage; for example, 10 percent, 20 percent, could be done by a simple majority?

Mr. SUNUNU. That might help reduce the uncertainty, and you could also augment it with some mechanism for directing the focus of the reconciliation itself.

As we noted earlier, there are programs that are functioning within their budget targets that might perhaps be excluded from the consideration under reconciliation.

Chairman ROTH. I have sort of mixed reaction on the reconciliation process, to be candid with you. I can argue both for and against it.

One of the problems I think in Washington has been the inability of Government really to function between the various rules of the House and Senate.

I happen to be somewhat supportive of the filibuster within limits, but because of rules it has been very simple to prevent any action, any significant action on many pressing issues. I agree with Lloyd Cutler that one of the most serious problems today is whether or not Government can develop a cohesive policy.

I think this is going to be increasingly important with our economy changing faster, and with our emerging into really a truely world economy, that the Government be able to function effectively. I don't think that is the case today.

The reconciliation process has been one devised for getting action. It sort of violates a lot of our basic rules as you well know. It gives me some concern from that standpoint. But I don't know of any good alternative at this stage. I think maybe there has to be some limits on it. But it is one means of getting some major changes through the Congress.

Mr. SUNUNU. Senator, it is certainly a useful tool. Some tools can become overly useful. All we are asking is that some thought be given to the fact that reconciliation could result in major changes in State programs that we may not have been anticipated. This might remove some of the certainty from the 2-year cycle may lead to funding changes that are even more surprising to us than some of the changes that would take place under a 1-year budget.

Another perspective on that, if I may introduce a slightly different issue and then come back to the reconciliation question, relates to the concern that we would have relative to the timing of the budget period.

As it is now scheduled in the proposed legislation, the budget period begins in January of what would be the even year. Most States that use a biennial budget begin their budget cycles on July of the odd year.

What these States would have then would be only 6 months of certainty. Yet the fact remains that if we had a 1-year out-of-phase relationship on the calendar there would be 18 months of certainty for States.

I don't mean to suggest that the Federal Government be the one that shifts its fiscal year, but I have a feeling that if there were some certainty in the budget schedule you established, then there may be some consideration by the States that are using the biennial budget now to shifting their biennial budgets in order to take advantage of a greater degree of certainty regarding Federal funds.

Obviously it would be easier for us if the Federal Government were to change, but sometimes that is more than we dare to expect. But in that respect, the importance of reconciliation would have one effect if we were operating with the 6-month certainty of coincidence in the calendars or the much different effect if it were based on the 18 months.

Referring now to our earlier discussion on reconciliation, I think that funding changes coming late in the cycle may not be so surprising to States that were operating with 18 months of certainty, but reconciliation coming within the last 6 months—which would have been the only 6 months of certainty for some States—would be a rude shock and surprise.

Chairman ROTH. I was on the original Budget Commission, which as a matter of fact, was created as a result of my trying to put an overall ceiling on spending.

I think it was a ceiling of $232 billion in 1972. You can see how successful that effort was. We are talking about $800 billion now.

In any event, I felt very strongly at that time we should have moved to the calendar year. I may be wrong but psychologically anything but the calendar year is very confusing to people. If we could get everybody back on some kind of a calendar year, it would make some commonsense.

Would you agree if we could get everybody back to the calendar year basis?

Mr. SUNUNU. We would at least like to have fiscal years with some more similarity. I think the Federal October 1 fiscal year has really raised some concern.

If everyone got together and agreed on a calendar year and did it simultaneously, it probably would be desirable.

If we made a change and had to suffer through the transition and learning curve again with no assurance that the change would last a long time, I am not sure States would appreciate the penalties of that transition process, coupled with the difficult economic times.

If the change is going to be made, I would urge that it be delayed unless it is coming as part of a grand move to something like a 2-year biennial budget. If it is just a shift in the fiscal year, that ought to take place in times when fiscal conditions are a little bit more stable than they have been in recent years.

Chairman ROTH. Let me say that, speaking for myself, I think a 2-year cycle is critically important, not only from the standpoint of budgeting. Frankly, I don't think Congress discharges its responsibility in other areas, as I mentioned in my opening statement. We were so busy with the budget resolution, with reconciliation, with the appropriations, and the debt limit that we don't really have time to look at policy or oversight of the programs in effect.

I think that is a major indictment of the operation of Congress. From that standpoint I think 2 years is critically important.

With respect to your problem of taxation I guess, and the impact of what we do in Washington on State budgets, I suppose in a sense that is a problem created by the States adopting piggybacking. I don't know what the answer is. From the standpoint of simplicity and so forth it has a lot of merit. But it does put those States, including my own, in a difficult position. Perhaps the States ought to provide those changes won't go into effect until approved by some means at the State level.

Mr. SUNUNU. I think we are learning our lesson there. Certainly, New Hampshire is attempting to make those adjustments.

If I may comment on your remarks on the 2-year cycle, I do agree that it is very, very important and if I had to summarize in a few phrases what the advantages and disadvantages were, I would say that the 2-year cycle provides certainty relative to expenditures and creates a little bit of uncertainty relative to revenues for the entity that is on that 2-year cycle. You mark up what you think you are going to be spending for 2 years, but you are not sure you have projected the revenues on which you have based that spend-

ing: You are not sure whether the revenue projections are accurate or if the projections will last over 2 years.

We are discussing a proposal that gives States a little bit of an advantage, and yet we understand the uncertainty that it would cause the Federal Government in terms of the projecting revenues.

It is a question of moving from a system that right now is clearly not working to one that might not be a perfect system, and probably will have some problems still, but that, in our opinion, deserves to be tried.

Chairman ROTH. The uncertainty has been created not only by our procedures but, more importantly, by our practices. I think that their impact on State and local government is outrageous. I don't know how it is possible for you to really plan with all the uncertainty and dependence that has been developed over the last several years.

I would like as you suggested in your closing comments to have this committee work—we are only part of the action, of course—very closely with you and your organization to see if we can't bring about some meaningful reform.

I think it is going to take the strong support of both State and local government to bring about a 2-year cycle. I think our proposal is a good step forward but it can stand, like anything else, improvement upon it. We would like to work with you on that.

I would also if I might as long as you are here, we have asked a couple of unrelated questions on the reform. Frankly, I don't see a lot of progress being made in the next 1 or 2 years on so-called Federalism, yet I think it is very important that there be some kind of sorting out of responsibility, even agreement, as to how those responsibilities are going to be met.

We reported out of this committee, and I suspect it will come up on the floor relatively soon, a bill that we call the Hoover Commission. Are you familiar with the old Hoover Commission?

Mr. SUNUNU. Yes.

Chairman ROTH. The idea is to try to bring in people from every level of government, and outside experts to take a hard look to bring about some meaningful reform. In the past your organization has been supportive. We did adopt it in the Senate last year. But no action was taken on the other side. I would urge you and your association to take a look at it because I think it does provide an opportunity to try to bring about some much needed reform in the interrelationship between Federal, State, and local government.

Mr. SUNUNU. I am not familiar with the specific legislation you are addressing. I am familiar with the work of the old Hoover Commission. I presume that the name is an indication of the analogy, and therefore I think it is probably a constructive step. But I certainly will ask NGA to take a look at it and we will be very pleased to come back to you with some written comments and some suggestions.

Chairman ROTH. Thank you, and in the meantime I would ask my staff to be in contact with your association. I hope we will move ahead on the 2-year approach.

Thank you very much for being here.

Mr. SUNUNU. Thank you very much, Mr. Chairman. I appreciate the opportunity.

Chairman ROTH. We look forward to working with you.
[The prepared statement of Governor Sununu follows:]

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National Governors' Association

Scott M. Matheson
Governor of Utah
Chairman

Raymond C. Scheppach
Executive Director

STATEMENT OF

GOVERNOR JOHN H. SUNUNU

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

U.S. SENATE

MAY 5, 1983

Mr. Chairman and Members of the Committee:

The National Governors' Association welcomes the opportunity to discuss with you the federal budget process and the impact it has on state governments. Your efforts to enhance the federal-state relationship are widely known, Mr. Chairman, and this inquiry into budget matters is further evidence of your determination to achieve more effective cooperation among the partners in the intergovernmental system.

At our winter meeting last March, the Governors debated and then adopted a suggested outline for long-range congressional budget decisions, and we know what a powerful tool the budget process can be. Because it emphasizes broad categories and focuses on the bottom line, the congressional budget technique permitted Governors to reach agreement on issues that are potentially highly divisive. As we said at our meeting, we believe that setting a well-defined federal fiscal course is essential to economic recovery. We believe the budget process is an effective tool for developing that course.

In my statement today, I would like to focus on the following areas:

- the importance of the congressional budget process;
- the relationship between state budgeting procedures and the federal budget process;
- intergovernmental problems associated with federal budget practices;
- the extent to which the Budget Reform Act of 1983 (S.20) addresses these intergovernmental problems; and
- other procedural issues relating to the Budget Reform Act.

Importance of the Congressional Budget Process

For many reasons, the enactment of the Congressional Budget and Impoundment Control Act of 1974 is viewed by many as the most important procedural change made by Congress in recent memory. Adoption of the various budget resolutions provides Congress with a mechanism for making better budget decisions. It permits Congress to make trade-offs among spending and taxes and to debate economic policy. It offers an opportunity to build a concensus among members of the budget, authorizing, and appropriations committees through the mechanism of the March 15 reports, in which committees outline their major concerns for the coming year. The Budget Act, which established the budget committees and the Congressional Budget Office, also created the opportunity for Congress to have access to better information on the impact of the alternative budget decisions.

State Budgeting Procedures

Although the Governors have taken note of the federal budget process, because of the opportunities it offers Congress and because of our own direct experience with it this winter, most states do not use similar procedures as they develop their own budgets. State procedures are more highly consolidated than the federal process, they often make use of the biennial budget techniques, and their timetables are different from the federal schedule.

Consolidated State Budget Procedures: In most states, the dual federal appropriations and budget procedures are rolled into one. Often, important authorization provisions that affect spending levels are incorporated, along with

approved spending levels, into an omnibus budget-appropriations-authorization bill.

Perhaps one reason why the state budget procedures are so highly consolidated is that we have a very limited margin of error, with grave repercussions when we miss the mark. All states but one have constitutional or statutory requirements for a balanced budget, so we all have a mechanism for relating spending requirements to revenue estimates and for monitoring that relationship throughout the budget period. Whenever expenditures exceed total available revenues — because of inaccurate economic projections, higher than anticipated need for services, natural disasters, federal budget reductions, or other factors — states have very few choices. We can cut programs, or we can raise taxes.

It is for this reason that economic downturns create serious problems for state budgets, and the current recession is no exception. As of January 1983, 41 of the 50 states were facing revenue shortfalls totalling $7.9 billion below their original estimates. These shortfalls combined with balanced budget requirements have made it necessary for states to reduce expenditures and raise taxes. On the spending side, many have already implemented severe austerity plans, including program reductions. Thirty-three states have frozen or limited hiring, 18 have instituted layoffs, and 8 have furloughed workers. Many states have also scaled back cost-of-living adjustments or merit raises for state employees.

Twenty-one states also increased taxes during 1982. During 1982, 7 states raised their personal income taxes, 4 raised their sales taxes, 4 increased their

corporate income taxes, and 9 raised their motor fuel taxes. Last year's tax actions are estimated by Merrill Lynch, Pierce, Fenner & Smith, Inc. to yield $3.5 billion in additional revenue. Merrill Lynch forecasts that in 1983, states will raise taxes by $5 billion. Indeed, work on 1983 tax increases is well underway. Since the beginning of the year, 13 states have raised taxes significantly.

Biennial Budgeting: Twenty-one states adopt their budgets on a two-year cycle. These states are Arkansas, Florida, Hawaii, Indiana, Iowa, Kentucky, Maine, Minnesota, Montana, Nevada, New Hampshire, North Carolina, North Dakota, Ohio, Oregon, Texas, Vermont, Virginia, Washington, Wisconsin, and Wyoming. Most states begin their two year budgets in the odd years, although three states —Kentucky, Virginia, and Wyoming — begin in even years.

Although the regional distribution of states using biennial budgets is fairly even, it is interesting to note that many of the larger states have not adopted the process. In fact, there has been no change in the decisions made by states on biennial budgeting since 1978-79. In that year, Florida adopted biennial budgeting, and Alabama changed back to an annual budget. However, Governor Wallace has proposed legislation to return the state to a biennial schedule.

State Budget Schedules: All but four states use a fiscal year beginning on July 1. New York's fiscal year begins April 1, Texas' begins September 1, and Alabama and Michigan begin October 1. In most states, therefore, the Governor's budget is presented to the the Legislature early in the year, with work to be completed by the July 1 deadline.

Intergovernmental Problems Associated with the Federal Budget Process

Given the budget procedures utilized by most states, the intergovernmental issues concerning the federal process involve questions of certainty, flexibility, and the federal/state partnership.

Certainty: By far the most important issue for states is increasing certainty about federal spending levels and program requirements. You have emphasized the need for longer lead time in your work on budget procedures, Mr. Chairman, and I strongly support your point of view. Federal aid accounts for an estimated 22 percent of state and local expenditures, and lack of information on such a large percentage of our resources clearly makes budgeting difficult for state officials and for our colleagues in local government.

A look back over the recent federal budget process should bring neutral observers to our side. Take the FY 1982 budget, for example. In March, around the time many states were enacting their budgets for the coming year, the President submitted his budget. In April, three months before the beginning of most state fiscal years, we were poring over House and Senate alternatives and struggling to interpret the early steps in the reconciliation process. By June, we were evaluating the Senate and House reconciliation bills and of the Administration rescission/deferral proposals for FY 1981, which together seemed to challenge every assumption underlying the budgets most states had adopted a year earlier. Then in July came the omnibus reconciliation substitute, which we understand was not even available to Members until six hours before the final vote. In July and August there was the tax bill, portions

of which would be automatically incorporated into the tax codes of 21 states, resulting in a loss of revenue to them. Then in September, the President offered new spending cuts affecting FY 1982 budget authority, with 18.5% of the proposed reductions coming from grant programs. In December, Congress approved the third continuing appropriations resolution for the year containing spending levels that were to be retroactive to October 1, increasing the uncertainty.

It is truly remarkable to review the documents from the period and to remind ourself of the magnitude and scope of the reconciliation bill. It contained major new block grants, with a multitude of procedural changes and requirements. It contained provisions that contemplated reductions of three to four percentage points in the federal matching rate for Medicaid, with enormous potential fiscal consequences for states. It made numerous changes in the administrative requirements of the AFDC, child support enforcement, food stamp, and child nutrition programs. And it contained funding cuts for a number of other state-local programs.

The FY 1983 experience was better, but not much. Before Congress recessed on October 1, 1982, it had passed only two of the thirteen appropriations bills. The first continuing resolution for FY 1983 covered just two and one-half months and required states to review both House and Senate versions of appropriations bills — hundreds of pages of legislation — to determine what it meant for their programs. Even then, important terms were ambiguously defined, and states faced the prospect of a new continuing resolution when Congress returned from the election-year recess. As it turned out, "only" one more continuing appropriations bill was passed, and work was

completed on four more of the regular appropriations bills, albeit months after the deadline set in the Budget Act.

I have described here only our efforts to determine what funding levels we might expect in grant-in-aid programs. But that is just the beginning of the story for states. The cuts do not automatically take effect; we have to decide how to implement them.

The problem is compounded if the cuts become effective in the middle of a state fiscal year, as many did in FY 1982. In this case, the impact of the cut on service levels is doubled, because only half a year remains over which the entire cut should have been spread. If, in the last quarter of the fiscal year, states are told to cut $50 million from a $200 million program, we would have no more funds to spend for the remainder of the fiscal year if we are to achieve the $50 million in savings in the last quarter of our fiscal year. This means we have to displace employees and disrupt the program for the last three months of the year. Then, in the next fiscal year, we have to crank up the program to a level of $150 million in order to maintain the $50 million cut. The timing of the funding changes, as well as the magnitude of the changes themselves, are vitally important from the state perspective.

Mr. Chairman, federal budget procedures have caused three major problems. First, states do not know what the funding level of the programs they administer will be with any certainty. Second, major unexpected changes reduce the cost effectiveness of grant programs. Third, the speed with which reconciliation is accomplished does not permit adequate time for consultation and therefore creates efficiency problems for states.

Suffice it to say in summary that lack of certainty adversly affects all grant-in-aid programs, from the individual services provided under AFDC to the largest construction programs. Constantly changing signals produce delays, mistakes, extreme frustration, and disappointment for citizens relying on these programs and help to explain the disaffection with government that is widespread today. We must do what we can, on all fronts, to turn this around.

Flexibility: Another problem states face within the federal process is a lack of program flexibility. The states have long maintained that with increased flexibility we could manage federal programs more effectively and responsively; this is true in times of federal funding cutbacks as well as in times of federal expansion.

In fact, little progress has been made at the congressional level in recent years to increase flexibility for states to manage federal programs and direct funds to the most pressing problems facing their citizens. As you know, General Revenue Sharing was cut off for state governments, eliminating this opportunity of "filling in the cracks" in the categorical system. Moreover, the block grants fell short of their initial promise, being passed too late to allow adequate lead time, incorporating sizeable funding reductions to be implemented in the middle of state fiscal years, providing severely limited transfer authority (now being challenged by Congress), and leaving approximately 450 categorical programs untouched. A "little bit" of nothing creates chaos at both the state and local levels.

Partnership: Finally, a major fact states face in the budget process is that the federal government spends very little time analyzing the effect its decisions will have on them. Impact upon states was barely discussed during the reconciliation or tax debates, but, as I have noted, both had an enormous direct impact on states. Just achieving enactment of a state-local fiscal note requirement was a major undertaking.

Governors have long held that the administering role states have assumed in some of the major domestic initiatives of the federal government — including income security, public health, education, and environmental programs —merits and demands greater consideration by the federal government. We feel that a true federal-state partnership still seems a long way off, Mr. Chairman, a concern that we know you share.

Intergovernmental Budget Problems Addressed in S. 20

In light of the problems I have outlined, we have reviewed the legislative proposal you have developed with great interest, Mr. Chairman. On balance, we believe that the Budget Reform Act of 1983 (S.20) would improve certainty, flexibility, and the intergovernmental partnership, but problems would remain. Let me provide you with an explanation of how I think S.20 would affect the three problem areas.

Certainty: Clearly, efforts must be made by the federal government to stabilize budget plans in a timely fashion. This will be helpful to states, and the

budgeting and appropriations procedures incorporated in S.20 provide a major opportunity for the federal government to give states more notice of funding levels and program changes they should expect.

However, the state experience suggests that no budgeting procedure can solve the problem of inaccurate forecasting that has plagued government at all levels, because in part of multiple budget projections and revisions at the federal level. In New Hampshire, where we have always had a biennial budget process, I can speak with some experience. Since 1969, with one exception, our state has had a special legislative session during every second year of each biennium. The reasons for the special sessions were different each time. Besides overly optimistic economic projections which caused shortfalls in revenues, another major underlying cause throughout the past decade has been changes in projections of federal aid. Proposed legislation S. 20 would allow states to project revenue based on current appropriations rather than past performance. This alleviates much of the need to prognosticate and to attempt to make crystal ball calculations.

The New Hampshire experience has been repeated in many other states. Five other biennial budget states (Indiana, Maine, Montana, Oregon and Washington) held special budget sessions in 1982, and so did four annual budget states (Minnesota, Nebraska, Utah, and California). In almost all states, whether they needed special sessions or not, the debate on fiscal issues was intense, even if 1982 was to be an "off year" for budgeting purposes.

The timing difference between the federal fiscal year proposed in S.20 and the fiscal year used by most states also will limit the element of certainty

provided by the new timetable proposed in S.20. As you know, most states operate on a July 1 to June 30 fiscal year. In these cases the Governors' budget is usually prepared during the previous fall and is presented to the Legislature early in the year—usually January or February.

According to my calculations, states using an annual budget would find that they had very good information available for even-numbered federal fiscal years, but limited data available for the odd years. S.20 thus would certainly be an improvement for them, but not a complete solution.

For biennial budget states, the states preparing their budgets in the even years (only three of the 21) would be most helped, because they would have good advance knowledge of federal spending for three-quarters of their budget periods by the time the Legislatures begin their deliberations. States using odd year schedules would have knowledge of federal decisions affecting only six months of their budget periods.

In spite of these limitations, we believe the schedule laid out in S.20 would make some improvement in the information available to states. Much will depend on the ability of Congress to keep to the new schedule, which will no doubt be subject to the same pressure as the current timetable and may even be intensified because decisions affect two years. We urge you to seek ways to strengthen the requirements for adhering to the budget timetable and to review the possibility of moving budget and appropriations deadlines to even earlier in the calendar year. Both of these steps would enhance certainty for states.

Also affecting certainty are the provisions in S.20 regarding reconciliation. From the perspective of budget control, the authority to undertake reconciliation at any time is very important, and the sixty day time frame provided is certainly preferable to current practice. (In fact, given the importance of decisions made in the reconciliation process, even more time may be needed to accomodate hearings and other fact-finding.) Moreover, the emphasis that S.20 puts on reconciliation, by requiring a two-thirds majority to change the budget resolution and a simple majority for reconciliation, suggests that reconciliation will be the preferred method for addressing budget overruns.

But constant and/or unscheduled reconciliations will continue the turmoil in the intergovernmental system, and continued ambiguity over whether authorized programs may be reconciled could lead to further cuts in the non-entitlement programs through reconciliation. This concerns us, Mr. Chairman, because state government programs have borne a heavy burden from the reconciliation efforts of recent years. This is understandable, because, unlike such programs as defense, reductions in grants lead to immediate reductions in outlays and hence have a direct effect on the deficit. It is understandable, too, because cutting grants is politically more palatable than reducing social security, medicare, veterans benefits, or defense. But, Mr. Chairman, grants cannot continue to bear a disproportionate burden of savings to offset increases in other programs. As it is, grants are scheduled to drop as percentage of the federal budget from 14.4 percent in 1981 to 11.7 percent in 1983.

For this reason, we view with concern the increased reliance on reconciliation, even though we know the process is a highly effective budget control device. Our concern would be alleviated if areas for reconciliation

would be limited to those where overruns were being experienced. This would focus congressional attention on areas of growth and spare budget categories where growth has already been curtailed.

Before leaving the certainty question, I wish to make one more point. If, because of the complicated politics that surround the budget process every year (and this year in particular), it proves impossible to make broad reforms this year, we hope you will seek other avenues to increase certainty in the budget process. Advance appropriations is one way greater certainty could be achieved, and we are available at any time to work with you to determine which programs are the highest priority targets for advance appropriations and to achieve congressional approval for wider applications of this useful technique.

Flexibility and Partnership: The timetable established in S.20 provides that every other year be set aside for oversight activities. This would allow the opportunity for indepth review of program goals, accomplishments and administrative requirements and would permit state officials the opportunity to consult with Congress about needed changes in the programs. We would hope that this consultation would lead to building greater flexibility into the intergovernmental system and to strengthening the partnership between states and the federal government.

Other Procedural Issues Addressed by the Budget Reform Act

I have concentrated in my remarks on the intergovernmental effects of S.20, but before concluding I would like to take a minute to discuss the bill from the "good government" point of view. The following are points I wish to make:

1) First Budget Resolution: The bill recognizes the importance of setting spending targets early in the year, and ratifies what has become the regular practice of Congress to make the first resolution binding. We believe this is a wise step.

2) Appropriations Process: The bill would lead to a more centralized appropriations process, with consideration of all spending items at the same time. This procedure, which more closely resembles state budget processes, will promote clearer discussion of trade-offs and easier tracking of the bottom line. Moreover, by voting two year appropriations, Congress will have new opportunities to consider the multi-year effect of its decisions, thus lessening the liklihood of spending overruns.

3) Reconciliation: The 60-day reconciliation schedule seems more reasonable than past congressional efforts and could lead to better informed decision-making. As I noted earlier, there may be times when 60 days is inadequate to deal with the reconciliation if the issues involved have significant budgetary implications or are complex.

4) Off Budget Entities: The federal budget should provide both Congress and the Administration with a comprehensive planning and management tool. Off-budget activities, that in FY 1983 are estimated to be $17 billion, represent a gap in the full coverage of all federal spending by the budget process. Good budgeting requires comprehensiveness, and we believe that the provisions contained in S.20 to bring more entities on budget are well advised.

Issues Which Might be Included in the Budget Reform Act

Two issues not covered in S. 20, the credit activities of the federal government and tax expenditures, might be considered for inclusion in the bill.

Credit Budget: CBO projects that federal credit activity will grow from a 1983 base of $136 billion in loan obligations and primary guarantee commitments to a level of $164 billion in FY 1988. This 21 percent growth is dramatic in view of recent trends. Between 1973 and 1982, when the GNP doubled, credit activity tripled. According to Senator Domenici, in 1981, credit funds raised under federal auspices accounted for fully 50 percent of total funds raised in all U.S. credit markets. Yet, a substantial portion of federal credit activities is omitted from the unified budget. We support the full inclusion of the credit budget in the budget process.

Tax Expenditures: The coverage of the budget process might also be expanded in S.20 to include tax expenditures. Tax expenditures are similar to spending and lending programs and have become one of the major ways by which the federal government allocates resources and affects private decisions.

One approach to increasing budgetary control of tax expenditures would be to include a ceiling on tax expenditures in the budget resolution. A further step would be to incorporate tax expenditures into the function-by-function review currently performed on spending programs.

In most budget functions, there are tax expenditures that have purposes similar to spending programs; in fact, tax expenditures actually exceed outlays

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in the commerce and housing credit function and in the general purpose fiscal assistance function. Part of the coming effort to narrow the budget gap should include a thorough review of this overlap among spending programs and tax expenditures, with an eye to which approaches are most effective or least costly. This could perhaps be best done by allocating tax expenditures jointly to the tax committees and to the spending committees with pertinent jurisdictions. A committee's actions on tax expenditures could be credited to its spending allocations, thereby encouraging trade-offs between the two.

Mr. Chairman, we greatly appreciate your efforts, and those of you collegues Senator Ford and Senator Quayle, who are also studying ways to improve the budget process. We wish you success in your efforts and pledge to work with you in any way that would be helpful to alleviate the uncertainty that now exists for state governments regarding the federal budget process, to increase flexibility in grant programs, and to strengthen the federal-state partnership.

Chairman ROTH. We are very pleased to have Mr. Bowsher, the Comptroller General of the United States before us. Mr. Bowsher, you may proceed. You can either read your statement or you may summarize it. In any event it will be included in its entirety as if read.

TESTIMONY OF CHARLES A. BOWSHER, COMPTROLLER GENERAL, GENERAL ACCOUNTING OFFICE, ACCOMPANIED BY HARRY HAVENS, ASSISTANT COMPTROLLER GENERAL FOR PROGRAM EVALUATION, GAO

Mr. BOWSHER. Thank you very much. I would like to read a very brief summary of the statement, Mr. Chairman.

I am pleased, of course, to be here today to discuss our work on advanced budgeting of Federal assistance to State and local governments and on biennial budgeting. Our work on both of these subjects is not yet complete but we are happy to share the preliminary results with you now.

In our study of the interrelationships of Federal, State, and local budgeting cycles we set out to determine what problems are caused by the different budget cycles and whether those cycles can be better coordinated. We found that a basic timing conflict exists between Federal, State, and local budget processes. Most State and local governments start making budget decisions in January for the upcoming fiscal year.

For most of them this will be the following July 1. These decisions will be affected, often profoundly, by Federal funding decisions. Therefore, the States and the localities should have information about Federal decisions before making their own. However, the Federal decisions are not made until late summer or fall and may be delayed well beyond that point. This means that most Federal decisions from a State and local government point of view are made at least 9 months too late. This conflict in cycles and the resulting uncertainty faced by State and local governments can cause them to operate programs inefficiently.

The role of State and local governments is now more critical than ever since they have been given greater decisionmaking responsibilities. It behooves the Federal Government to make sure that whatever resources are provided be used as efficiently as possible. This suggests the Federal funding be relatively stable and if possible and even more important be predictable. State and local governments need to know when they will receive funding, at what level, so that this information can be incorporated into their own planning and budgeting processes.

From the Federal standpoint, however, advanced budgeting has the disadvantage of reducing at least slightly the opportunities to respond to unexpected conditions, changes in the economy, or changing priorities.

There is an unavoidable tradeoff between the conflicting objectives of short-run flexibility and long-run stability predictability. There is no easy way to resolve that tradeoff. We believe that the objective of predictability should be given special weight in certain types of programs such as those involving major capital investments and those that are implemented through other levels of gov-

ernment. Abrupt and unanticipated change in the funding levels can lead to serious losses in overall efficiency.

In addition to our review of advanced budgeting we were asked to study the feasibility and advisability of lengthening the Federal budget process or cycle specifically to a 2-year period. This study includes examples of State biennial budgeting experiences and identification of congressional workload and timetable problems that have surfaced in the existing budget process and alternatives for making accurate budget estimates and for implementing a biennial budget.

We have issued part of our overall biennial budgeting study, a summary of the biennial budgeting processes of Ohio, Wisconsin, and Florida. What we have learned is that although biennial budgeting is tailored to the needs and characteristics of the States certain underlying principles exist in the State budget processes that might be both relevant and adaptable to Federal budgeting. The first of these is the effective control and adjustment mechanism.

With the installation of a 2-year budget cycle it is necessary to provide for making budgeting changes especially during the off-budget year. The second factor is early consensus on revenue estimates by the executive and the legislative branches. This can allow the budget debate to focus on policy issues rather than technical estimating differences.

Sentiment varied in the three States as to the relative advantages and disadvantages of biennial budgeting. The principal benefits of biennial budgeting appear to be the following: One, biennial budgeting does not require the States governments' legislative and executive level full-time attention for budget review every year. Therefore more time is available for nonbudget activities in both the legislative and the agencies.

Two, the biennial budgeting lends itself to a more planned and deliberate approach to developing the budget, including the budget preparation process, analysis of the policy issues, and review of the major budget proposals. It also provides time for longer range planning if the State chooses to do so. The most frequently cited disadvantages of biennial budgeting are the increased difficulty in estimating accurately revenues and expenditures in the second year, and budgeting for uncontrollable items such as the entitlement programs and the legislatures perceived loss of control for the executive and State agencies since it has fewer opportunities to make program and budget decisions.

The review of the State experiences is only part of our overall biennial budgeting study. In addition we sought to identify congressional workload and timetable problems, budget estimates, and biennial alternatives. I think it is generally perceived there has been an increase in the congressional workload activity. Given that a true measure of the workload remains fairly elusive these perceptions I think are significant. The perceptions are that the current annual budget process is too time consuming and cumbersome, has an unrealistic timetable, lacks the means to achieve compliance, and crowds out time for oversight and other legislative activities.

Another area of concern about the current budget process is that of budget estimates and their accuracy. Revenue and expenditures estimating is based on the rather complex task of making economic

forecasts. Many of the people we spoke with both in and out of the Congress are disturbed by the numerous sets of budget estimates being debated and by the ambiguity surrounding the differences and by the need for frequent revisions.

Such concern merits serious consideration since reliable revenue and expenditure estimates are critical to the success of any budget process. The longer the period these projections cover the greater the possibility of deviation. Thus, while the estimating process is already a matter of concern, it becomes even more of an issue in the context of proposals for a biennial budget. Whether these budgeting estimating problems would continue under a 2-year system is not simple to answer and in some ways estimating for a 2-year period may be even a little easier.

Errors in gaging turning points such as when a recovery will begin may have a less dramatic effect on the 2-year estimate. On the other hand, the 2-year period would allow more time for errors to compound and accumulate. We have no real basis for judging which of these influences would be more significant.

The final segment of our analysis for the biennial budgeting study involves examination of various biennial alternatives. If the Congress decides to switch to a biennial budget process GAO prefers an approach that you have taken, Mr. Chairman, in S. 20.

This timetable would have budget actions concentrated in the first year of each new Congress, oversight conducted in the second and a fiscal period beginning January 1 of even-numbered years overlapping the Congress. This timetable is attractive because it places difficult budget votes in a nonelection year, allows the budget to be adopted during the first year of the President's term, providing the opportunity to swiftly implement a new President's program and leaves the second session relatively free for oversight.

In conclusion, let me just say that we share the concerns that underly the several proposals to convert the Federal Government to a biennial budget process. We agree that the problems with the present budget process are serious and need to be solved. At the same time we believe that an annual process has advantages if we can find ways of streamlining and solving its problems.

We are a little concerned if Government switches to a biennial process that there will be a strong tendency to restore flexibility by making extensive adjustments in the second year of the biennial. This might cause congressional and agency workload to be little different from that associated with the annual process. These activities however might lack the unifying structure and the framework that surround the present annual process.

Because we anticipate problems of this sort we suggest that these concerns be explored before deciding on the biennial budgeting approach. We in GAO have thought about the problems facing the Congress in the budget process and we have become increasingly convinced that these are a reflection at least in part of a much larger set of problems affecting the financial management structure of Government as a whole. It is time to reexamine the entire financial management system in the Federal Government. The process and system which we operate is obsolete, inefficient, and we fear sometimes close to collapse.

If we can develop appropriate systems and procedures taking advantage of modern technology, we believe the annual budget process can be made to work more effectively with substantially less demand on the legislative calendar. Significant components of a redesigned system might well have a multiyear funding cycle covering programs that need stability and predictability. If we are unable to design and implement more efficient systems and procedures or if that approach still impedes congressional workload it may be necessary to shift to biennial budgeting across the board.

Under those circumstances, we would prefer the approach reflected in your bill, Mr. Chairman, and particularly the effort to concentrate budget activity in the first year and oversight in the second. However, if a shift to biennial budgeting were accomplished without the needed improvements in the rest of the financial management structure we suspect you and others would be disappointed in the results. That concludes my statement and I would be happy to respond to questions.

Harry Havens is here with me today from the GAO.

Chairman ROTH. We are happy to have you here.

Frankly, I personally think the time has come for action. I think the public in general and many people are becoming very discouraged about the budgetary process. You look at the number of appropriations that have been completed in recent years, it is an exception rather than the practice. I just noticed in the Wall Street Journal which reflects, frankly, the thinking of many people back home, points out in the editorial this morning:

> For the past few years we like most people have thrown up our hands in frustration over the bankruptcy of the congressional process. By this time the project has become a joke, we might as well let ourselves have a good laugh. If yesterday's Senate action is any indication we are well underway to conclude nothing can be done about all of this, so apparently enjoy.

So my concern, frankly, with your testimony is that I think the time has come when we really have got to grapple with these problems. It is not just a budgetary problem. I think it is important to understand that.

Mr. BOWSHER. Yes. I agree.

Chairman ROTH. I think the fact is that there is a lot of disillusionment of Government out there on the part of the people because they don't see the Government able to function effectively, efficiently. The reconciliation, with all its negatives, has enabled Government to function and meet some of the problems that I would say have been raised very profoundly and have been expressed time and again. Can our Government really meet the challenge of these times? I will be candid with you. I don't see the reforms coming about in 1 year.

I do think that there is great merit to the 2-year approach, but that we have to build in some flexibility in the second year. It seems to me that it is easier to do that and I don't think you necessarily have all the complexities. Perhaps, as I mentioned earlier, we ought to provide certain changes within a certain percentage limitation to be made the next year so that there is sort of a one-shot opportunity.

I suspect you are going to need one bill that year. But what we are talking about now is that you have two budget resolutions, you

have 13 appropriations, you have the tax bills, we also have the debt ceiling, all these other things. So that all we appear to be doing is working on budgetary measures.

Mr. BOWSHER. Mr. Chairman, I share your concerns. I think the budget process needs redoing, simplifying. My real point is that we do see some problems here that should be addressed as part of the overall review and not just changing to a biennial budgeting. We think biennial budgeting should be looked at, be given a great deal of consideration, and that might be exactly where you should end up. The overall financial management system should be looked at. The items that you talked about, like the debt votes that are always being brought up here every 3 or 4 months, funding lapses at the end of the fiscal year, we think those are the kinds of things that should be looked at too, simplified, and made more feasible and more practical solutions, let's say, to get this process working better.

Chairman ROTH. We don't touch the so-called debt ceiling which the minority, whoever that may be, uses as a political football. The Republicans did it for years; I think the current minority has done the same.

It has been used in a bipartison approach for political purposes. Why shouldn't that bill be folded into the resolution? I think the House actually does that now?

Mr. BOWSHER. Yes; we made some recommendations some time back on pulling it in more as part of the overall budget process and not having it sitting out there as a separate hurdle you might say. So we think it should be brought in.

Chairman ROTH. I see no reason why that couldn't be part of the budget resolution.

Mr. BOWSHER. Yes; part of the budget.

Chairman ROTH. I think we ought to direct the staff to look at that and look at your recommendations in that area.

Mr. BOWSHER. I think the same at the end of the fiscal years when we come up now under the Civiletti decision, frankly bringing the Government to a halt, I think that legislation should be considered to see if we can't come up with a solution that allows the Government to continue to operate if we don't have the appropriations and processes.

It is those kind of hurdles that should be addressed and worked on in addition to the consideration of the biennial.

Chairman ROTH. Yes; I agree with that. It bothers me very greatly, the impact on the programs and the impact on people.

Mr. BOWSHER. That is right.

Chairman ROTH. I guess, looking on page 13, where you say it is time to reexamine the entire financial management system of the Federal Government, in a way, in principle, I agree with you, but I guess in effect you are hitting really at the political resolution of these issues.

I think one of the problems probably in government today is that there has not been a broad consensus as there has in the past in many of these areas. We often talk about that lack of consensus in the international area, but it is somewhat true in the domestic area as well. There are some very sharp differences. But I would hope that by a 2-year process that your second year would give

some time, some opportunity for committees and the Congress as a whole to begin to debate broader issues.

Frankly, the way it worked in the past, I think you probably agree with me, Mr. Havens, that the way it has worked in the past is that each committee has gone its own little way and there hasn't been any effort to look at the broad picture. But as I said, I think one of the reasons I feel so strongly about the 2-year process is I think Congress has to begin facing the broader issues and act in a more responsible manner rather than so fragmented.

Mr. BOWSHER. We are in 100 percent agreement with you there and we also agree that the biennial budgeting probably would give you more time to do that in that second year.

That would be all to the good. What we are trying to point out here on page 13 is that in many respects, the Federal Government today has a fiscal crisis. In other words, with the budget deficits being the size that they are, and the budget process not working as well as it should be, you point out in that Wall Street Journal article, that is certainly the perception around the country, we think that the time has come to look at this whole financial management system of the Federal Government much as some of the States and some of the larger cities had to do after the New York City fiscal crisis.

In other words, there was their warning, that is when they had to finally go in, look and see how they were doing their budgeting and their accounting and things like that.

We just think that the time has come that there should be some kind of a look see, which could fit into either an annual or a biennial budgeting process. But what we are trying to point out here today is that kind of an effort is probably also needed if we are going to get rid of some of the problems that we have today in the budgeting process.

Chairman ROTH. Let me ask you: You do make the statement that if we cannot correct these problems in the annual basis we should turn to a 2-year system. How would you correct some of these problems on the annual basis?

Mr. BOWSHER. I think one of the problems in the annual process that you have today is that you have layered processes on top of existing processes. If you go back to the PPBS system that got put into the Defense Department in the early sixties and later somewhat expanded to the rest of the Government in the late sixties, what you really did is you put a programing process on top of the traditional budgeting process.

The theory of that process was you would make the big program decisions in the first 6 months and have to make kind of minor adjustments as you put the budget together in the second 6 months.

It has never worked that way. It is good in theory but it is difficult to get those big decisions made up in the first 6 months because people really don't want to make the decision, whether they need one carrier or two carriers in the Navy budget until the last minute when they really have to make the decision.

I think the congressional process ran into the same problem. You put a new, third process literally on top of the authorizing committee and on top of the appropriations process.

Now, we have three processes. So both the executive branch and in the congressional process, what you have got is multiple crosses. I think the only way you could ever make an annual budget process work would be to think through maybe some of those processes and eliminate part of it.

In other words, you have got to get it down to fewer decision points, fewer times where you have people having to say we are for this or we are against it. Because I think right now, that is one of the frustrations of the Senators and the Congress, they are being asked to constantly vote and recycle decisions lots of times on the same issues, lots of times in changing facts a few months later.

So you have to go through and strip away some of those multiple layers of processes. That gets to the issue lots of times of people giving up present prerogatives, present responsibilities and they might not want to do it.

I think if they are not willing to do it, then the biennial budgeting is practically a requirement because I don't think under the present systems you are ever going to be able to do it on an annual basis.

Chairman ROTH. I strongly agree that we have got too much decisionmaking, too much nitpicking on the part of Congress rather than concentrating on the major policies.

Let me go to another aspect of the proposal which would be a major simplification, instead of having 13 appropriations, have 1, have that as your second resolution.

Some people have expressed concern, and I think it has some merit, that that puts the President in a very difficult position. He has to veto the entire budget. I cannot imagine Congress going to a line item veto which is, of course, what the fiscal conservatives and those in the executive branch would like. But I wonder if it might not make sense to give the President the opportunity to veto a portion of the budget.

If you didn't want to create any change, you could say we would continue the practice that there be 13, one appropriation be submitted as possibly 13 bills and he could veto one of them.

I have at least some theoretical problem with that because I think how those are lumped together has been an accident of history rather than good sense.

I have found cases, for example, where one opposes farm subsidies, but is a supporter of developing our environmental laws and agency. In these cases, one is in a difficult position. How does one vote?

How does one vote intelligently? So maybe the vetos ought to be via a smaller classification.

Do you have any comment on that? Would you give some thought to that?

Mr. BOWSHER. We would like to give some thought to that if we could.

Chairman ROTH. I think it is a legitimate concern.

Mr. BOWSHER. It is a legitimate concern.

Chairman ROTH. That the President shouldn't be put in the posture that he has to veto the whole thing. At the same time we have no line item veto. How do we compromise that?

Mr. BOWSHER. The omnibus approach as the Governor, the former witness here pointed out, is a fairly standard approach in most other government units. But to do it for the entire Federal budget without giving the President some leeway here, I agree with you.

Let us give it some thought.

Chairman ROTH. I was pleased that Senator Hatfield, as chairman of the Appropriations Committee, has cosponsored this legislation. It is an indication of his thinking.

My final question goes to the second year of trying to provide some flexibility but not open it up to a back door approach of where you are in the first year.

I made the suggestion that perhaps we should permit some simple resolution by, let's say a resolution by a simple majority, to make changes within a certain percentage.

It could be 10 percent, or 15 percent, for example. I don't have any fixed idea of the proper amount. Yet I don't think we want to open it so wide that it becomes necessary to go through the entire process every time. But, for example, you may have an emergency. Presumably you could get the two-thirds majority if necessary or you could provide some kind of vehicle based upon the request of the President and of a majority of the Congress to reopen it in the event of emergency.

Do you have any thoughts on that?

Mr. BOWSHER. We just have the thought that, again, I think you have got to leave enough flexibility in there for the smaller changes.

One thing we noticed as we review the States that have biennial budgeting is that they really, when you sort through their processes in that second year, generally you come out saying that they basically have a reprograming system there that allows them to reprogram moneys under certain limitations that you are thinking and proposing there and that seems to work fairly well in some of their systems.

They do it a lot of different ways but I think that is the kind of thing that should be explored and maybe explored more than maybe we have so far but see if you cannot do it. Then the big thing is to try to avoid those big changes through the reconciliation limitation or anything like that.

Mr. HAVENS. If I might offer one other thought.

If in the process of overhauling whatever it is that you do you end up appropriating a larger lump than is presently the case, if you have something less than 1,300 appropriation accounts, and you combine that with somewhat greater flexibility on the reprograming side for the executive branch, the degree of adjustment in the second year may be substantially reduced.

If you perpetuate, however, the system of appropriating in very fine amounts so that any change in circumstance requires a change in the appropriation, then I think you will precipitate a volume of adjustment in the second year which you will find very difficult to handle.

So I would urge you to consider the possibility of further consolidation of the appropriation actions as you move, if you move to a biennial budget in order to mininize the adjustments.

Mr. BOWSHER. If I could amplify that point, in the early sixties, when MacNamara got his system in and approved by the Congress, he really got it down to a much smaller number of appropriations over at Defense. The reprograming authority, what they could do on their own, what they had to do with the approval of the Secretary of Defense, then what they had to do with the approval of the Congress was a fairly reasonable system.

It really allowed them to operate fairly well. Then when the war came along, more and more distrust built up between the Congress and the Defense Department and you had some cost overruns and more distrust built up, they started tying it down more and more to the point that they have always had to be coming over here for adjustment, things like that.

I think those are the kind of things that you could go back and look at to see what is a reasonable basis. If you went to a biennial budgeting you would end up as Harry said with something that is practical in that second year.

Chairman ROTH. I think that is a worthwhile suggestion.

Let me ask this political question:

Are we going to have the same kind of problem on the domestic side because people will feel that if we consolidate, that will hurt specific programs?

Would that be much of a problem, do you think, Harry?

Mr. HAVENS. No question in my mind at all. There will be substantial political objection to the sort of consolidation that Chuck was talking about in terms of the MacNamara period. People want to defend discrete elements and political power concentrates around discrete elements.

Chairman ROTH. Every line item has its constituency?

Mr. HAVENS. Exactly, sir. That is part of the concern that we have been trying to express, that you need to begin to deal with some of these things so that there is greater flexibility, and it will be at some perhaps significant political cost that you provide that flexibility and take some risk in the process.

I think you have to reach the point where you or where we are once again prepared to trust the executive branch and its political and managerial leadership. That trust does not now exist as you are perfectly well aware. But it has got to be part of the reform thrust.

Chairman ROTH. I would agree with that. Of course, if we got it through, it wouldn't go into effect for 2 years.

Mr. BOWSHER. So you would have the time to do some of that.

Chairman ROTH. What I would suggest, I would like to see my people sit down with you on this issue. I would like to hear from you, Harry, because I agree, it is a very fundamental and important reform.

Gentlemen, I appreciate your being here today.

We will look forward to working with you. I am still persuaded that the biennial is the right approach. But I think some of those suggestions you have are worthwhile.

Thank you, very much.

Mr. BOWSHER. Thank you, very much.

[Mr. Bowsher's prepared statement follows:]

UNITED STATES GENERAL ACCOUNTING OFFICE

WASHINGTON, D.C. 20548

FOR RELEASE ON DELIVERY
EXPECTED AT 10:00 a.m.
May 5, 1983,

TESTIMONY OF

CHARLES A. BOWSHER

COMPTROLLER GENERAL OF THE UNITED STATES

BEFORE THE

COMMITTEE ON GOVERNMENTAL AFFAIRS

UNITED STATES SENATE

ON

PERSPECTIVES ON BUDGETING FOR STATE AND LOCAL NEEDS

AND BIENNIAL BUDGETING

Mr. Chairman and Members of the Committee:

I am very pleased to appear before you today to discuss perspectives on budgeting for State and local needs. More specifically, I will be discussing our work both on advance budgeting of Federal assistance to State and local governments and on State biennial budgeting experiences.

State and local government planning and budgeting processes have been straining under the rapid growth of the Federal grant system during the late 1960s and early 1970s, the increased complexity of these programs, the recent shift to greater decisionmaking responsibility by these governments, and, most recently, reduced Federal funding. In view of the critical role of these governments, it behooves the

Federal Government to assure that whatever resources we provide can be used as efficiently as possible.

STUDY ON ADVANCE BUDGETING

In view of this concern, we undertook a study of the interrelationships of Federal, State and local budgeting cycles. In this study, we set out to determine what problems are caused by the different budget cycles and whether those cycles can be better coordinated. Differences such as calendar year versus fiscal year versus program year point out the potential for confusion when State and local governments use Federal funds. Our study is not yet complete, but we are happy to share the preliminary results with you at this time.

In the early stages of our work, State and local government officials told us that although they had concerns about various budget cycle-related problems, of much greater concern to them was the resulting uncertainty of the Federal funding levels and the negative effect this has on their own budget process. Reacting to this concern, we examined the characteristics, extent, and effects of Federal funding uncertainties by analyzing the budget processes in six States--California, Colorado, Georgia, Michigan, Montana, and Ohio--, 18 local government units within the States (including a city, county and school district in each State), and 10 Federal grant programs.

There is a basic timing conflict between Federal, State, and local budget processes. Most State and local governments start making budget decisions in January for the

upcoming fiscal year which, for most of them, will start the next July 1. These decisions will be affected, often profoundly, by Federal funding decisions. Ideally, the States and localities should have information about Federal decisions before making their own. In actuality, however, the Federal decisions are not made until late Summer or Fall, and may be delayed well beyond this point. This means that most Federal decisions, from a State and local government point of view, are made at least 9 months too late.

This conflict in cycles, and the resulting uncertainty faced by State and local governments can cause them to operate inefficiently. They may have to make abrupt reductions in services, initiate programs without adequate time for planning and coordination, or carry out programs in an inappropriately shortened period. In addition, they may have to spend their own funds or borrow funds to operate programs which were initiated on the basis of a reasonable expectation of continued Federal funding. The existence of these problems suggests that Federal funding be relatively stable, if possible, and even more important, that it be predictable. State and local governments need to know when they will receive funding, and at what level, so that this information can be incorporated into their own planning and budgeting processes.

The timing problem could be relieved by having the Federal Government budget for these programs in advance. This would assure that State and local governments have definitive information about Federal funding early in their decisionmaking processes.

From the Federal standpoint, however, this approach has the disadvantage of reducing, at least slightly, the opportunities to alter the budget in the short run in response to unexpected conditions, changes in the economy, or changing priorities. There is an unavoidable tradeoff between the conflicting objectives of short run flexibility and long run stability and predictability. There is no easy way to resolve that tradeoff, but we believe that the objective of predictability should be given special weight in certain types of programs, such as those involving major capital investments and those which are implemented through other levels of government. In both cases, abrupt, unanticipated changes in funding levels can lead to serious losses in overall efficiency.

STUDY ON STATE BIENNIAL BUDGETING

In addition to our review of advance budgeting, we were asked to study the feasibility and advisability of lengthening the Federal budget cycle, specifically to a 2-year period. This study includes an identification of Congressional workload and timetable problems that have surfaced in the existing budget process, examples of State biennial budgeting experience, and alternatives for implementing a biennial budget. We have completed the analysis for our biennial budgeting study, and the draft report was released for comment to the Office of Management and Budget and the Congressional Budget Office.

On December 23, 1982, we issued part of our overall biennial budgeting study, "Biennial Budgeting: The State

Examples--Summary of the Major Issues,". This summary briefly discusses the biennial budgeting processes of Ohio, Wisconsin, and Florida.

These States were selected for biennial budgeting analysis because they had the following characteristics:

--large budgets and economies;

--legislatures that convene annually;

--rapidly growing outlays and uncontrollable sections of their budgets;

--a high level of competition for limited resources;

--significant recent debate as to whether biennial budgeting is appropriate;

--various ways of implementing a biennial budget; and

--different (1) provisions for legislative oversight, (2) annual budget adjustment mechanisms, and (3) authorization/appropriation processes.

Throughout the course of each State study, the majority of our interviews dealt with the portions of the State budget process that might relate to the congressional budget process. We knew that certain information would help us understand how the biennial budget process works; how the budget is adjusted, expenditures are controlled, and estimates are made. The State studies also provided us with information on what oversight, program evaluation, and planning activities take place.

Budgeting at the State level is tailored to the unique needs and characteristics of the State. Thus State practices may not be transferable to the Federal sector. At the

same time, certain underlying principles in the budget processes of the States we visited, might be both relevant and adaptable to Federal budgeting. The first of these is an effective control and adjustment mechanism. With the installation of a 2-year budget cycle, it is necessary to provide for making budget c' ges, especially during the off-budget year. At the State level, these changes, which can include moving funds between accounts, programs, or agencies, are made in various ways. The three States we visited each had a different way of making these adjustments. A second factor is early consensus on revenue estimates by the executive and legislative branches. This can allow the budget debate to focus on policy issues rather than technical estimating differences. Florida, for example, derives its revenue estimates through revenue estimation conferences.

Sentiment varied in the three States as to the relative advantages and disadvantages of biennial budgeting. The process received overwhelming support in Ohio, general satisfaction in Wisconsin, and mixed reviews in Florida. The people we talked to mentioned some problems, but they felt the benefits outweighed the problems. In these three States, the principal benefits of biennial budgeting appear to be:

--Biennial budgeting does not require the State government's (legislative and executive level) full-time attention for budget review every year. Therefore, more time is available for non-budget activities in both the legislature and the agencies.

--Biennial budgeting lends itself to a more planned and deliberate approach to developing the budget, including the budget preparation process, analysis of policy issues, and review of major budget proposals. It also provides time for longer range planning, if the State chooses to do so.

The most frequently cited disadvantages of biennial budgeting are

--the increased difficulty in estimating accurately revenues and expenditures in the second year and budgeting for "uncontrollable" items, such as entitlement programs; and

--the legislature's perceived loss of control over the executive and State agencies, since there are fewer opportunities to make program and budget decisions.

Budgeting trends

While looking at the biennial budgeting processes in the three States, we also examined budgeting trends in all 50 States. Since the beginning of this century, many States have changed the frequency of legislative sessions, their budget cycle, or both.

Since 1940, States have been switching from biennial to annual budget cycles. As of early 1982, twenty States had biennial budgets compared to 44 in 1940.

We interviewed officials in the six States which have shifted to an annual cycle in the last 18 years. The ability to respond more rapidly to changing conditions appeared to be the principal reason for the shift. In a

slight variation on this point, one official commented that the change to annual budgeting was the result of an increase in supplemental appropriations. In the second year of the biennium, supplemental appropriations were so numerous that off-year activities began to closely resemble the budget year.

The changes also occurred because of legislative reforms that began in the 1960s and continued into the 1970s. These caused State legislatures to reassert their role as equal partners with the executive branch in the management of State policies and programs. During the early 1970s, the State legislature became more active in the budget process. An increase in legislative committees and the growth and professionalization of legislative staff contributed to this. According to officials in two of the States contacted, these were major factors in their switch from biennial to annual budgeting.

On the surface, there is a strong State trend toward annual budgets. However, of the 29 States with annual budgets, 3 that had switched from biennial to annual are at least considering switching back. In addition, one other large State that has always had an annual budgeting cycle is considering a change to biennial budgeting. In actuality, therefore, the trends are mixed.

BIENNIAL BUDGETING ISSUES

Timetable and workload problems

The review of State experience is only a part of our overall biennial budgeting study. In addition, we sought to

identify congressional workload and timetable problems. Our analysis of traditional indices of congressional workload--such as the number of bills passed--does not bear out the contention of increased workload. However, Members' and staffs' perceptions of an increase in overall activity remain. Given the fact that a true measure of workload remains elusive, these perceptions are significant. The perceptions are that the current annual budget process is too time-consuming and cumbersome, has an unrealistic timetable,lacks the means to assure compliance, and crowds out time for oversight and other legislative activities. For example, despite the Congress' efforts to work with the process, only 1 of the 13 appropriation bills for fiscal year 1983 had been signed into law before the fiscal year began.

Budget estimates

Another area of concern about the current budget process is that of budget estimates and their accuracy. Many of the people we spoke to both in and out of Congress, are disturbed by the numerous sets of budget estimates being debated, by the ambiguity surrounding their differences, and by the need for frequent revision. Such concern merits serious consideration since reliable revenue and expenditure estimates are critical to the success of any budget process. The longer the period these projections cover, the greater the possibility for deviation. Thus, while the estimating process is already a matter of concern, it be-

comes even more of an issue in the context of proposals for a biennial budget.

Revenue and expenditure estimating is based on the rather complex task of making economic forecasts. These forecasts are predictions of economic behavior and are inherently subject to error and frequent revision.

Three approaches have been proposed to deal with widely divergent sets of economic assumptions, the inexactness of estimates, and the need for frequent revisions:

--agreement between the executive branch and the Congress on a common set of economic forecasts before budget deliberations begin;

--a Board of Revenue Estimators to determine the revenue estimates for the budget resolutions for the next two fiscal years; and

--the use of ranges, rather than point estimates for outlays, revenues, and deficits or surpluses in the budget resolution.

These proposals should be considered in developing more effective estimating procedures for either an annual or biennial process.

Changes in economic behavior could also cause estimates of entitlement costs to be off the mark. Entitlement programs constitute about 47 percent of the Federal budget. However, these costs are difficult to control within the budget period because of the time lags between the time a change is made and the time it affects the outlays.

The question remains whether a 2-year system would affect these budget estimating problems. There is no simple answer to that question. In some ways, estimating for a 2-year period may be a little easier. Errors in gauging a turning point (e.g., when a recovery will begin) may have a less dramatic effect on a 2-year estimate. On the other hand, a 2-year period would allow more time for errors to compound and accumulate. We have no real basis for judging which of these influences would be more significant.

Biennial alternatives

The final segment of our analysis for the biennial budgeting study involves the examination of various biennial alternatives.

GAO has analyzed the four biennial budgeting bills introduced in the 98th Congress. While all stress the need for more time for oversight and budget actions, each proposal is unique.

If Congress decides to switch to a biennial budget process, GAO suggests that it concentrate budget actions in the first year of each new Congress, conduct oversight in the second, and adopt a fiscal period beginning January 1 of even-numbered years (overlapping a Congress). This is the approach you have taken, Mr. Chairman, in S. 20. This timetable is attractive because it

--places difficult budget votes in a non-election year,

--allows the budget to be adopted during the first year of a President's term, providing the opportunity to swiftly implement a new President's program, and

--leaves the second session relatively free for oversight.

CONCLUSION

We share the concerns which underly the several proposals to convert the Federal Government to a biennial budget process. We agree that the problems are serious and need to be solved. At the same time, we believe that there are advantages to an annual process, if we can find other ways of solving its problems.

These advantages relate primarily to the retention of short run budgetary flexibility and annual oversight in programs and activities where those are appropriate. We are a little concerned that if the government switched to a biennial process, there would be a strong tendency to restore flexibility by making extensive adjustments in the second year of the biennium. Given uncertainty about the future course of the economy, we think it would be difficult to resist the pressures for adjustment and flexibility. This might cause congressional and agency workload to be little different from that associated with an annual process. These activities, however, might lack the unifying structure and framework which surround the present annual process.

Because we anticipate problems of this sort, we suggest that these concerns be explored before deciding on the biennial budgeting approach.

As we in GAO have thought about the problems facing Congress in the budget process, we have become increasingly convinced that these are a reflection, at least in part, of

a much larger set of problems affecting the financial management structure of the government as a whole. We suspect that you cannot eliminate the effect on Congress of those broader problems unless they are solved at the same time as Congress grapples with the matter of how it will handle the budget.

It is time to reexamine the entire financial management system of the Federal Government. That system encompasses the processes by which government

--decides on its goals and objectives;

--develops programs to achieve those objectives;

--allocates resources among programs;

--accounts for the resources and controls their use;

--monitors progress toward objectives;

--assesses the continuing relevance of objectives; and

--reviews the effectiveness of programs.

The processes and systems by which we do these things are obsolete, inefficient, and we fear, close to collapse. We can no longer expect to manage government with systems, procedures and concepts designed for an era when government was simpler and smaller.

We need to develop systems and procedures which are both simpler and more effectively integrated. For example, we need to eliminate excessive detail and repetitious decisionmaking, not only for the Congress, but for the executive agencies as well.

If we can develop appropriate systems and procedures, taking advantage of modern technology, we believe the annual

budget process can be made to work more effectively, with substantially less demand on the legislative calendar. Significant components of a redesigned system might well have a multiyear funding cycle, covering programs for which stability and predictability are particularly important.

If we are unable to design and implement more efficient systems and procedures, or if that approach still yields an excessive congressional workload, it may be necessary to shift to biennial budgeting across the board. Under those circumstances, we would prefer the approach reflected in your bill, Mr. Chairman, and particularly the effort to concentrate budget activity in the first year and oversight in the second. However, if a shift to biennial budgeting were accomplished without the needed improvements in the rest of the financial management structure, we suspect you would be disappointed in the results.

That completes our prepared statement. I would be pleased to respond to any questions you may have.

Chairman ROTH. The committee is in recess.

[Wherepon, at 11:15 a.m., the committee recessed, to reconvene at the call of the Chair.]

ADDITIONAL MATERIAL SUBMITTED FOR THE RECORD

98TH CONGRESS
1ST SESSION

S. 20

To provide for a two-year budget process, and for other purposes.

IN THE SENATE OF THE UNITED STATES

JANUARY 26 (legislative day, JANUARY 25), 1983

Mr. ROTH introduced the following bill; which was read twice and referred jointly, pursuant to the order of August 4, 1977, to the Committees on the Budget and Governmental Affairs with instructions that if one committee reports, the other committee has thirty days of continuous session to report or be discharged

A BILL

To provide for a two-year budget process, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Budget Reform Act of 1983".

STATEMENT OF PURPOSE

SEC. 2. It is the purpose of this Act—

(1) to establish a process through which the Federal budget will be adopted for a two-year period;

(2) to improve congressional control over the Federal budget process;

(3) to streamline the requirements of the budget process in order to promote better accountability to the public;

(4) to improve the legislative and budgetary processes by providing additional time for congressional oversight and other vital legislative activities;

(5) to provide stability and coherence for recipients of Federal funds; and

(6) to implement other improvements in the Federal budget process.

TWO-YEAR CONGRESSIONAL BUDGET PROCESS

SEC. 3. (a) Section 2(2) of the Congressional Budget and Impoundment Control Act of 1974 (2 U.S.C. 621(2)) is amended by striking out "each year" and inserting in lieu thereof "every two years".

(b)(1) Section 3(1) of such Act (2 U.S.C. 622(1)) is amended—

(A) by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period"; and

(B) by striking out "such year" and inserting in lieu thereof "such period".

(2) Section 3(4) of such Act (2 U.S.C. 622(4)) is amended to read as follows:

"(4) The term 'concurrent resolution on the budget' means—

"(A) a concurrent resolution setting forth the congressional budget for the United States Government for a two-year fiscal period as provided in section 301; or

"(B) a concurrent resolution on the budget revising the congressional budget for the United States Government pursuant to section 304.".

(3) Section 3 of such Act (2 U.S.C. 622) is further amended by adding at the end thereof the following new paragraphs:

"(6) The term 'two-year fiscal period' means the period of two years beginning on January 1 of each even-numbered year.

"(7) The term 'omnibus appropriation bill' means the bill providing new budget authority for a two-year fiscal period for all departments, agencies, and authorities of the Government.

"(8) The term 'supplemental appropriation bill' means a bill providing new budget authority for a two-year fiscal period for one or more departments, agencies, or authorities of the Government, which is considered in accordance with section 307(c).".

(c)(1) Section 202(a)(1) of the Congressional Budget Act of 1974 (2 U.S.C. 602(a)(1)) is amended—

(A) by inserting "omnibus" before "appropriation bills";

(B) by striking out "and other" and inserting in lieu thereof "supplemental appropriation bills,"; and

(C) by striking out "or providing budget authority or" and inserting in lieu thereof "budget authority, and bills authorizing or providing".

(2) Section 202(f) of such Act (2 U.S.C. 602(f)) is amended—

(A) by striking out "April 1 of each year" in paragraph (1) and inserting in lieu thereof "April 15 and July 15 of each odd-numbered year";

(B) by striking out "fiscal year commencing on October 1 of that year" in paragraph (1) and inserting in lieu thereof "two-year fiscal period beginning on January 1 of the succeeding year";

(C) by striking out "such fiscal year" each place it appears in paragraph (1) and inserting in lieu thereof "such two-year fiscal period";

(D) by redesignating paragraph (2) as paragraph (3), and (in such paragraph) by striking out "paragraph (1)" and inserting in lieu thereof "paragraphs (1) and (2)"; and

(E) by inserting after paragraph (1) the following new paragraph:

"(2) On January 15 and July 15 of each even-numbered year, the Director shall submit to the Committees on the Budget of the House of Representatives and the Senate such revisions of the report required by paragraph (1) as may be necessary with respect to the two-year fiscal period in progress.".

(d) Section 300 of such Act (2 U.S.C. 631) is amended to read as follows:

"TIMETABLE

"SEC. 300. The timetable with respect to the congressional budget process for any Congress (beginning with the Ninety-ninth Congress) is as follows:

"First Session

"On or before:	Action to be completed:
January 2	Committees submit oversight reports to their respective Houses.
15th day after Congress meets	President submits his budget for the two-year fiscal period beginning in the succeeding calendar year, including current services budget.
March 31	Committees and joint committees submit views and estimates to Budget Committees with respect to two-year fiscal period.
April 15	Congressional Budget Office submits report to the Budget Committees with respect to the two-year fiscal period beginning on January 1 of the succeeding year.
April 30	Budget Committees report concurrent resolution on the budget for the two-year fiscal period to their respective Houses.
May 15	Committees report bills and resolutions authorizing new budget authority.
May 31	Congress completes action on concurrent resolution on the budget for the two-year fiscal period.

"First Session—Continued

June 15	House Appropriations Committee reports the omnibus appropriation bill for the two-year fiscal period.
July 15	President and Congressional Budget Office report to the Budget Committees.
July 31	House completes action on the omnibus appropriation bill for the two-year fiscal period.
7th day after Labor Day	Senate Appropriations Committee reports the omnibus appropriation bill for the two-year fiscal period.
September 30	Senate completes action on the omnibus appropriation bill for two-year fiscal period.
September 30	Congress completes action on bills and resolutions providing new spending authority for two-year fiscal period.
October 15	Congress completes action on the omnibus appropriation bill for two-year fiscal period.

"Second Session

"January 1	Two-year fiscal period begins.
January 15	President and Congressional Budget Office report to Budget Committees.
July 15	President and Congressional Budget Office report to Budget Committees.
During session	Committees conduct oversight on programs and activities within their jurisdiction.".

(e)(1)(A) The section heading for section 301 of such Act (2 U.S.C. 632) is amended by striking out "FIRST".

(B) The item relating to section 301 in the table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended by striking out "first".

(2) Section 301(a) of the Congressional Budget Act of 1974 (2 U.S.C. 632(a)) is amended—

(A) by striking out "May 15" in the subsection heading and inserting in lieu thereof "May 31 of each odd-numbered year";

(B) by striking out "May 15 of each year" in the first sentence and inserting in lieu thereof "May 31 of each odd-numbered year";

(C) by striking out "first" before "concurrent resolution on the budget" in the first sentence;

(D) by striking out "fiscal year beginning on October 1 of such year" and inserting in lieu thereof "two-year fiscal period beginning on January 1 of the succeeding year"; and

(E) by striking out "an appropriate" in paragraph (2) and inserting in lieu thereof "a recommended".

(3) Section 301(b) of such Act (2 U.S.C. 632(b)) is amended to read as follows:

"(b) ADDITIONAL MATTERS IN CONCURRENT RESOLUTION.—The concurrent resolution on the budget referred to in subsection (a) may also require any other procedure which is considered appropriate to carry out the purposes of this Act.".

(4) Section 301(c) of such Act (2 U.S.C. 632(c)) is amended—

(A) by striking out "March 15 of each year" and inserting in lieu thereof "March 31 of each odd-numbered year"; and

(B) by striking out "fiscal year beginning on October 1 of such year" in paragraph (2) and inserting in

lieu thereof "two-year fiscal period beginning on January 1 of the succeeding year".

(5) Section 301(d) of such Act (2 U.S.C. 632(d)) is amended—

(A) by striking out "first" each place it appears before "concurrent resolution on the budget" in the first and third sentences;

(B) by striking out "fiscal year" in the first sentence and inserting in lieu thereof "two-year fiscal period";

(C) by striking out "April 15 of each year" in the third sentence and inserting in lieu thereof "April 30 of each odd-numbered year";

(D) by striking out "fiscal year beginning on October 1 of such year" in the third sentence and inserting in lieu thereof "two-year fiscal period beginning on January 1 of the succeeding year";

(E) by striking out "five fiscal" in paragraph (6) and inserting in lieu thereof "six";

(F) by striking out "such fiscal year" in such paragraph and inserting in lieu thereof "the first year in such two-year fiscal period,"; and

(G) by striking out "each fiscal year in such period" and inserting in lieu thereof "each two-year fiscal period in such six-year period".

(6) Section 301(e) of such Act (2 U.S.C. 632(e)) is amended—

(A) by striking out "set for" in paragraph (1) and inserting in lieu thereof "set forth";

(B) by striking out "first" before "concurrent resolution on the budget" in paragraph (2);

(C) by inserting "referred to in subsection (a)" after "concurrent resolution on the budget" in such paragraph; and

(D) by striking out "fiscal year" in such paragraph and inserting in lieu thereof "two-year fiscal period".

(f) Section 302(c) of such Act (2 U.S.C. 633(c)) is amended by striking out "or 310".

(g)(1) The section heading for section 303 of such Act (2 U.S.C. 634) is amended by striking out "FIRST".

(2) The item relating to section 303 in the table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended by striking out "First concurrent" and inserting in lieu thereof "Concurrent".

(3) Section 303(a) of the Congressional Budget Act of 1974 (2 U.S.C. 634(a)) is amended—

(A) by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period";

(B) by striking out "first" before "concurrent resolution on the budget" in the matter following paragraph (4);

(C) by inserting "referred to in section 301" after "concurrent resolution on the budget" in the matter following paragraph (4);

(D) by striking out "year" in the matter following paragraph (4) and inserting in lieu thereof "period"; and

(E) by striking out "pursuant to section 301" in the matter following paragraph (4).

(4) Section 303(b) of such Act (2 U.S.C. 634(b)) is amended by striking out "fiscal year" each place it appears in paragraphs (1) and (2) and inserting in lieu thereof "two-year fiscal period".

(h) Section 304 of such Act (2 U.S.C. 635) is amended—

(1) by striking out "first" before "concurrent resolution on the budget";

(2) by inserting "referred to in section 301" after "concurrent resolution on the budget";

(3) by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period";

(4) by striking out "pursuant to section 301" after "has been agreed to"; and

(5) by striking out "most recently agreed to" and inserting in lieu thereof "if the concurrent resolution on the budget making such revisions, and any conference report thereon, is agreed to by a rollcall vote of two-thirds of the Members of the Senate and the House of Representatives duly chosen and sworn".

(i)(1) Section 305(a)(3) of such Act (2 U.S.C. 636(a)(3)) is amended—

(A) by striking out "first" before "concurrent resolution on the budget";

(B) by inserting "referred to in section 301(a)" after "concurrent resolution on the budget"; and

(C) by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

(2) Section 305(b) of such Act (2 U.S.C. 636(b)) is amended—

(A) by striking out ", except that, with respect to the second required concurrent resolution referred to in section 310(a), all such debate shall be limited to not more than 15 hours" in paragraph (1);

(B) by striking out "first" before "concurrent resolution on the budget" in paragraph (3);

(C) by inserting "referred to in section 301(a)" after "concurrent resolution on the budget" in such paragraph; and

(D) by striking out "fiscal year" in such paragraph and inserting in lieu thereof "two-year fiscal period".

(j)(1) Section 307 of such Act (2 U.S.C. 638) is amended to read as follows:

"OMNIBUS APPROPRIATION BILL REQUIRED

"SEC. 307. (a) POINT OF ORDER.—Except as provided in subsection (c), it shall not be in order in the House of Representatives or the Senate to consider any bill or resolution providing new budget authority for a two-year fiscal period other than an omnibus appropriation bill.

"(b) DEADLINES.—(1) The Committee on Appropriations of the House of Representatives shall report to the House of Representatives an omnibus appropriation bill for a two-year fiscal period by June 15 of the year preceding the year in which such period begins.

"(2) The House of Representatives shall pass an omnibus appropriation bill for a two-year fiscal period by July 31 of the year preceding the year in which such period begins.

"(3) The Committee on Appropriations of the Senate shall report to the Senate an omnibus appropriation bill for a two-year fiscal period by the seventh day after Labor Day of the year preceding the year in which such period begins.

"(4) The Senate shall pass an omnibus appropriation bill for a two-year fiscal period by September 30 of the year preceding the year in which such period begins.

"(5) Congress shall complete action on an omnibus appropriation bill for a two-year fiscal period by October 15 of the year preceding the year in which such period begins.

"(c) SUPPLEMENTAL APPROPRIATION BILL PERMITTED.—It shall be in order in the House of Representatives or the Senate to consider a supplemental appropriation bill for a two-year fiscal period at any time after the Congress adopts a concurrent resolution on the budget pursuant to section 304 which revises the concurrent resolution on the budget agreed to pursuant to section 301 for such two-year fiscal period, or the most recently agreed to concurrent resolution on the budget for such two-year fiscal period, as the case may be.

"(d) AMENDMENTS.—It shall not be in order in the House of Representatives or the Senate to consider any amendment providing new budget authority for a two-year fiscal period unless such amendment is an amendment to an omnibus appropriation bill or a supplemental appropriation bill.".

(2) The item relating to section 307 in the table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended to read as follows:

"SEC. 307. Omnibus appropriation bill required.".

(k)(1) Section 308(a) of the Congressional Budget Act of 1974 (2 U.S.C. 639) is amended—

(A) by inserting "to its House an omnibus appropriation bill, a supplemental appropriation bill, or" after "either House reports" in the matter preceding paragraph (1);

(B) by striking out "to its House" after "a bill or resolution" in the matter preceding paragraph (1);

(C) by striking out "new budget authority (other than continuing appropriations) or" before "new or increased tax expenditures" in the matter preceding paragraph (1);

(D) by striking out "fiscal year" in the matter preceding paragraph (1) and inserting in lieu thereof "two-year fiscal period";

(E) by striking out "a bill or resolution providing new budget authority" in paragraph (1) and inserting in lieu thereof "an omnibus appropriation bill or a supplemental appropriation bill";

(F) by striking out "or resolution" in paragraph (1)(A);

(G) by striking out "fiscal year" in paragraph (1)(A) and inserting in lieu thereof "two-year fiscal period";

(H) by inserting a comma after "a projection" in paragraph (1)(B);

(I) by striking out "5 fiscal" in paragraph (1)(B) and inserting in lieu thereof '6";

(J) by striking out "such fiscal year" in paragraph (1)(B) and inserting in lieu thereof "the first year in such two-year fiscal period,";

(K) by striking out "or resolution" in paragraph (1)(B);

(L) by striking out "each fiscal year in such period" in paragraph (1)(B) and inserting in lieu thereof "each two-year fiscal period in such 6-year period";

(M) by striking out "or resolution" in paragraph (1)(C);

(N) by striking out "fiscal year" in paragraph (2)(A) and inserting in lieu thereof "two-year fiscal period";

(O) by striking out "such year" in paragraph (2)(A) and inserting in lieu thereof "such period";

(P) by inserting a comma after "a projection" in paragraph (2)(B);

(Q) by striking out "5 fiscal" in paragraph (2)(B) and inserting in lieu thereof "6";

(R) by striking out "such fiscal year" in paragraph (2)(B) and inserting in lieu thereof "the first year in such two-year fiscal period,";

(S) by striking out "each fiscal year in such period" in paragraph (2)(B) and inserting in lieu thereof "each two-year fiscal period in such 6-year period"; and

(T) by striking out "fiscal year" each place it appears in the last sentence and inserting in lieu thereof "two-year fiscal period".

(2) Section 308(b) of such Act (2 U.S.C. 639(b)) is amended—

(A) by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period"; and

(B) by striking out "such year" each place it appears and inserting in lieu thereof "such period".

(3) Section 308(c) of such Act is amended—

(A) by striking out "FIVE-YEAR" in the subsection heading and inserting in lieu thereof "SIX-YEAR";

(B) by striking out "each fiscal year" in the matter preceding paragraph (1) and inserting in lieu thereof "each two-year fiscal period";

(C) by striking out "5 fiscal years beginning with such fiscal year" in the matter preceding paragraph (1) and inserting in lieu thereof "6 years beginning with the first year in such two-year fiscal period";

(D) by striking out "each fiscal year" each place it appears in paragraphs (1), (2), and (3) and inserting in lieu thereof "each two-year fiscal period"; and

(E) by striking out "such period" each place it appears in paragraphs (1), (2), and (3) and inserting in lieu thereof "such 6-year period".

(l)(1) Section 309 of such Act (2 U.S.C. 640) is amended to read as follows:

"COMPLETION OF ACTION ON BILLS PROVIDING CERTAIN NEW SPENDING AUTHORITY

"SEC. 309. Except as otherwise provided pursuant to this title, not later than September 30 of each odd-numbered year, the Congress shall complete action on all bills and resolutions providing new spending authority described in section 401(c)(2)(C) which is to become effective during the two-year fiscal period beginning on January 1 of the succeeding year.".

(2) The item relating to section 309 in the table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended to read as follows:

"Sec. 309. Completion of action on bills providing certain new spending authority.".

(m)(1)(A) The section heading of section 310 of the Congressional Budget Act of 1974 (2 U.S.C. 641) is amended by striking out "SECOND REQUIRED CONCURRENT RESOLUTION AND".

(B) The item relating to section 310 in the table of contents in section 1(b) of the Congressional Budget and Impoundment Control Act of 1974 is amended by striking out "Second required concurrent resolution and reconciliation" and inserting in lieu thereof "Reconciliation".

(2) Section 310(a) of the Congressional Budget Act of 1974 (2 U.S.C. 641(a)) is amended—

(A) by striking out the matter preceding paragraph (1) and inserting in lieu thereof the following:

"SEC. 310. (a) REPORTING OF CONCURRENT RESOLUTION.—At any time after the concurrent resolution on the budget referred to in section 301 for a two-year fiscal period has been agreed to, and before the end of such two-year fiscal period, the Congress may adopt a concurrent resolution for such two-year fiscal period which shall, to the extent necessary—";

(B) by striking out "such fiscal year" each place it appears in paragraph (1) and inserting in lieu thereof "such two-year fiscal period"; and

(C) by inserting "or prior two-year fiscal periods, as the case may be" before the semicolon in paragraph (1)(B).

(3) Section 310 of such Act (2 U.S.C. 641) is amended by striking out subsection (b) and by redesignating subsections (c) through (f) as subsections (b) through (e), respectively.

(4) Section 310(c) of such Act (2 U.S.C. 641(c)), as redesignated by paragraph (3) of this subsection, is amended—

(A) by striking out "subsection (c)" and inserting in lieu thereof "subsection (b)"; and

(B) by striking out "September 25 of each year" and inserting in lieu thereof "60 days after the date on which the concurrent resolution referred to in subsection (a) is agreed to".

(5) Section 310(d) of such Act (2 U.S.C. 641(d)), as redesignated by paragraph (3) of this subsection, is amended—

(A) by inserting "concurrent resolutions referred to in subsection (a)," after "consideration in the Senate of" in paragraph (1);

(B) by inserting a comma after "reconciliation bills" in such paragraph; and

(C) by striking out "subsection (c)" each place it appears in paragraphs (1) and (2) and inserting in lieu thereof "subsection (b)".

(6) Section 310(e) of such Act (2 U.S.C. 641(e)), as redesignated by paragraph (3) of this subsection, is amended—

(A) by striking out "the concurrent resolution on the budget required to be reported under subsection (a) for the fiscal year beginning on October 1 of such year, and, if a" and inserting in lieu thereof "any";

(B) by striking out "is" before "required to be reported"; and

(C) by striking out "subsection (c) for such fiscal year, unless the Congress has completed action on that bill or resolution, or both" and inserting in lieu thereof "subsection (b) for a two-year fiscal period".

(n)(1) Section 311(a) of such Act (2 U.S.C. 642(a)) is amended—

(A) by striking out "section 310(a) for a fiscal year" and inserting in lieu thereof "section 301(a) for a two-year fiscal period";

(B) by striking out "section 310(c)" and inserting in lieu thereof "section 310(b)";

(C) by striking out "any bill, resolution, or amendment providing additional new budget authority

for such fiscal year," and inserting in lieu thereof "any omnibus appropriation bill or supplemental appropriation bill for a two-year fiscal period or any amendment thereto, any bill or resolution";

(D) by inserting "any bill or resolution" before "reducing revenues"; and

(E) by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period".

(2) Section 311 of such Act (2 U.S.C. 642) is further amended—

(A) by redesignating subsection (b) as subsection (c) and in such subsection—

(i) by striking out "subsection (a)" and inserting in lieu thereof "subsections (a) and (b)"; and

(ii) by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period"; and

(B) by inserting after subsection (a) the following new subsection:

"(b) ENROLLMENT PROHIBITED.—No omnibus appropriation bill for a two-year fiscal period, supplemental appropriation bill for such a period, or bill or resolution providing new spending authority described in section 401(c)(2)(C) for

such a period shall be enrolled if the amount of new budget authority or new spending authority described in section 401(c)(2)(C) provided in that bill or resolution would cause the appropriate level of total new budget authority or total budget outlays set forth in the most recently agreed to concurrent resolution on the budget for such two-year fiscal period to be exceeded.".

(o)(1) Section 401(a) of such Act (2 U.S.C. 651(a)) is amended by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

(2) Section 401(b) of such Act (2 U.S.C. 651(b)) is amended—

(A) by striking out "fiscal year" each place it appears in paragraphs (1) and (2) and inserting in lieu thereof "two-year fiscal period"; and

(B) by striking out "during the calendar year in" in paragraph (1) and inserting in lieu thereof "after the date on".

(p) Section 402(a) of such Act (2 U.S.C. 652(a)) is amended—

(1) by striking out "preceding the beginning of such fiscal year" and inserting in lieu thereof "of the odd-numbered year preceding the year in which such two-year fiscal period begins"; and

(2) by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

(q) Section 403(a) of such Act (2 U.S.C. 653(a)) is amended—

(1) by striking out "fiscal year in which it is to become effective and in each of the 4 fiscal years following such fiscal year" in paragraph (1) and inserting in lieu thereof "two-year fiscal period in which it is to become effective and in the two succeeding two-year fiscal periods";

(2) by striking out "fiscal year" the first place it appears in paragraph (2) and inserting in lieu thereof "two-year fiscal period"; and

(3) by striking out "four fiscal years following such fiscal year" in such paragraph and inserting in lieu thereof "two succeeding two-year fiscal periods".

(r) Section 904(b) of the Congressional Budget Act of 1974 (2 U.S.C. 621) is amended by striking out "title III or IV" and inserting in lieu thereof "title III (except section 304 or section 311(b)) or title IV".

(s)(1) Section 1012(a) of the Impoundment Control Act of 1974 (2 U.S.C. 683(a)) is amended by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period".

(2) The last sentence of section 1013(a) of such Act (2 U.S.C. 684(a)) is amended by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

(3) Section 1014(e) of such Act (2 U.S.C. 685(e)) is amended by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period".

(t) Paragraph 8(b) of rule XXVI of the Standing Rules of the Senate is amended by striking out "March 31" and inserting in lieu thereof "January 2".

(u)(1) Clause 1(b)(4) of rule X of the Rules of the House of Representatives is amended by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

(2) Clause 4(a)(1)(A) of rule X of the Rules of the House of Representatives is amended by inserting "odd-numbered" after "each".

(3) Clause 4(a)(2) of rule X of the Rules of the House of Representatives is amended by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period".

(4) Clause 4(b)(2) of rule X of the Rules of the House of Representatives is amended—

(A) by striking out "first"; and

(B) by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

(5) Clause 4(f) of rule X of the Rules of the House of Representatives is amended by striking out "annually" each place it appears and inserting in lieu thereof "biennially".

(6) Clause 4(g) of rule X of the Rules of the House of Representatives is amended—

(A) by striking out "March 15 of each year" and inserting in lieu thereof "March 31 of each odd-numbered year"; and

(B) by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period".

(7) Clause 4(h) of rule X of the Rules of the House of Representatives is amended by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

(8) Clause 2(l)(1)(C) of rule XI of the Rules of the House of Representatives is repealed.

(9) Clause 4(a) of rule XI of the Rules of the House of Representatives is amended by striking out "on general appropriations bills and on joint resolutions continuing appropriations for a fiscal year if reported after September 15 preceding the beginning of such fiscal year" and inserting in lieu thereof "on omnibus appropriation bills and supplemental appropriation bills".

(10) Clause 1 of rule XLIX of the Rules of the House of Representatives is amended—

(A) by striking out the comma after "301" and inserting in lieu thereof "or"; and

(B) by striking out ", or 310".

(11) Clause 2 of rule XLIX of the Rules of the House of Representatives is amended by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

SUBMISSION OF PRESIDENT'S BUDGET

SEC. 4. (a) Section 1101 of title 31, United States Code, is amended by adding at the end thereof the following new paragraph:

"(3) 'two-year fiscal period' has the meaning given to such term in paragraph (6) of section 3 of the Congressional Budget and Impoundment Control Act of 1974 (2 U.S.C. 622(6)).".

(b)(1) Section 1103 of title 31, United States Code, is amended—

(A) by inserting "or two-year fiscal period, as the case may be," after "fiscal year"; and

(B) by inserting "or period" after "that year".

(2) Section 1104 of title 31, United States Code, is amended—

(A) by striking out "deficiency and" in subsection (a); and

(B) by inserting "or prior two-year fiscal period, as the case may be," after "fiscal year" in subsection (c).

(3) Section 1105(a) of title 31, United States Code, is amended—

(A) by striking out "each regular session of Congress" in the matter preceding paragraph (1) and inserting in lieu thereof "the first regular session of each Congress";

(B) by striking out "for the following fiscal year" in the matter preceding paragraph (1) and inserting in lieu thereof "for the two-year fiscal period beginning on January 1 of the succeeding year";

(C) by striking out "fiscal year for which the budget is submitted and the four fiscal years after that year" in paragraph (5) and inserting in lieu thereof "two-year fiscal period for which the budget is submitted and the first two two-year fiscal periods immediately following that two-year fiscal period";

(D) by striking out "fiscal year for which the budget is submitted and the four fiscal years after that year" in paragraph (6) and inserting in lieu thereof "two-year fiscal period for which the budget is submitted and the first two two-year fiscal periods immediately following that two-year fiscal period";

(E) by inserting "or the prior two-year fiscal period, as the case may be" after "fiscal year" in paragraph (7);

(F) by inserting "or the current two-year fiscal period, as the case may be" after "fiscal year" in paragraph (8);

(G) by inserting "or the prior two-year fiscal period, as the case may be" after "prior fiscal year" in subparagraph (A) of paragraph (9);

(H) by inserting "or the current two-year fiscal period, as the case may be" after "current fiscal year" in subparagraph (B) of paragraph (9);

(I) by striking out "fiscal year" in subparagraph (C) of paragraph (9) and inserting in lieu thereof "two-year fiscal period";

(J) by striking out "fiscal year" in subparagraph (A) of paragraph (12) and inserting in lieu thereof "two-year fiscal period";

(K) by striking out "4 fiscal years after that fiscal year" in subparagraph (B) of paragraph (12) and inserting in lieu thereof "first two two-year fiscal periods following such two-year fiscal period";

(L) by striking out "fiscal year" in paragraph (13) and inserting in lieu thereof "two-year fiscal period";

(M) by striking out "year" in paragraph (14) and inserting in lieu thereof "period";

(N) by striking out "fiscal year" in paragraph (16) and inserting in lieu thereof "two-year fiscal period";

(O) by striking out "fiscal year" each place it appears in paragraph (17) and inserting in lieu thereof "two-year fiscal period";

(P) in paragraph (18)—

(i) by inserting "or prior two-year fiscal period, as the case may be" after "fiscal year", and

(ii) by inserting "or period" after "that year" each place it appears; and

(Q) in paragraph (19)—

(i) by inserting "or prior two-year fiscal period, as the case may be" after "fiscal year", and

(ii) by inserting "or period" after "that year" each place it appears.

(4) Section 1105(b) of title 31, United States Code, is amended by striking out "each year" and inserting in lieu thereof "each even-numbered year".

(5) Section 1105(c) of title 31, United States Code, is amended—

(A) by striking out "fiscal year for" each place it appears and inserting in lieu thereof "two-year fiscal period for";

(B) by inserting "or current two-year fiscal period, as the case may be," after "current fiscal year"; and

(C) by striking out "that year" and inserting in lieu thereof "that 2-year fiscal period".

(6) Section 1105(d) of title 31, United States Code, is amended by inserting "or current two-year fiscal year period, as the case may be," after "fiscal year".

(7) Section 1105 of title 31, United States Code, is further amended by adding at the end thereof the following new subsection:

"(e) Notwithstanding any other provision of law, the President shall include in the budget submitted under subsection (a) proposed budget authority, direct loans, and commitments to guarantee loan principal, and estimates of outlays and receipts for all activities of all departments, establishments, and instrumentalities of the Federal Government, except Government-sponsored corporations to the extent financed by wholly private funds.".

(8) Section 1106(a) of title 31, United States Code, is amended—

(A) by striking out "July 16 of each year" in the matter preceding paragraph (1) and inserting in lieu thereof "July 16 of each odd-numbered year";

(B) by striking out "fiscal year" in the matter preceding paragraph (1) and inserting in lieu thereof "two-year fiscal year period";

(C) by striking out "fiscal year" in paragraph (1) and inserting in lieu thereof "two-year fiscal period";

(D) by striking out "4 fiscal years following the fiscal year" in paragraph (2) and inserting in lieu thereof "first two two-year fiscal periods following the two-year fiscal period";

(E) by striking out "fiscal years" in paragraph (3) and inserting in lieu thereof "two-year fiscal periods"; and

(F) by striking out "fiscal year" in paragraph (3) and inserting in lieu thereof "two-year fiscal period".

(9) Section 1106(b) of title 31, United States Code, is amended—

(A) by inserting "(1)" after the subsection designation;

(B) by striking out "April 11 and July 16 of each year" and inserting in lieu thereof "July 16 of each odd-numbered year";

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(C) by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period";

(D) by striking out "submitted before July 16" and inserting in lieu thereof "required under this subsection"; and

(E) by adding at the end thereof the following new paragraph:

"(2) On January 15 and July 15 of each even-numbered year, the President shall submit to the Congress a revision of the statement required by paragraph (1) with respect to the current two-year fiscal period.".

(c)(1) Section 1107 of title 31, United States Code, is amended—

(A) by striking out "Deficiency and supplemental" in the section heading and inserting in lieu thereof "Supplemental"; and

(B) by striking out "deficiency and" in the text thereof.

(2) The table of sections of chapter 11 of title 31, United States Code, is amended by striking out the item relating to section 1107 and inserting in lieu thereof the following new item:

"1107. Supplemental appropriations.".

(d) Section 1108(b) of title 31, United States Code, is amended—

(1) by striking out "deficiency and" in paragraph (1) thereof; and

(2) by striking out "deficiency or" in paragraph (2) thereof.

(e)(1) Section 1109(a) of title 31, United States Code, is amended—

(A) by striking out "Before November 11 of each year," in the first sentence and inserting in lieu thereof "At the time the President submits the budget for a two-year fiscal period under section 1105 (beginning with the budget submitted for the two-year fiscal period beginning on January 1, 1986),";

(B) by inserting "a statement of" before "the estimated budget outlays" in the first sentence;

(C) by striking out "the following fiscal year" in the first sentence and inserting in lieu thereof "such two-year fiscal period";

(D) by striking out "that year" in the first sentence and inserting in lieu thereof "that period";

(E) by inserting "or current two-year fiscal period, as the case may be," after "current fiscal year" in the first sentence; and

(F) by striking out "those budget outlays and budget authority are" and inserting in lieu thereof "the statement of budget outlays and budget authority is".

(2) Section 1109(b) of title 31, United States Code, is amended—

(A) by striking out "estimated budget outlays and proposed budget authority" and inserting in lieu thereof "statement of estimated budget outlays and proposed budget authority submitted under subsection (a)"; and

(B) by striking out "January 1 of each year" and inserting in lieu thereof "March 31 of each odd-numbered year".

(f)(1) Section 1110 of title 31, United States Code, is amended—

(A) by striking out "a fiscal year" and inserting in lieu thereof "a two-year fiscal period (beginning with the two-year fiscal period commencing January 1, 1986)";

(B) by striking out "year before the year in which the fiscal year" and inserting in lieu thereof "even-numbered year before the year in which the two-year fiscal period";

(C) by striking out "one year" and inserting in lieu thereof "one two-year fiscal period"; and

(D) by striking out "fiscal years" and inserting in lieu thereof "two-year fiscal periods".

(2) The table of sections of chapter 11 of title 31, United States Code, is amended by striking out the item relating to section 1110 and inserting in lieu thereof the following new item:

"1110. Advance requests for authorizing legislation.".

(g) Section 1114 of title 31, United States Code, is amended by striking out "each year" each place it appears and inserting in lieu thereof "biennially".

CONVERSION TO BIENNIAL FISCAL PERIOD

SEC. 5. (a) Section 1102 of title 31, United States Code, is amended to read as follows:

"§ 1102. Fiscal year

"In all matters of accounts, receipts, expenditures, estimates, and appropriations—

"(a) there shall be, through September 30, 1985, a fiscal year of the United States commencing on October 1 of each year and ending on September 30 of the following year; and

"(b) there shall be, beginning on January 1, 1986, a two-year fiscal period of the United States beginning on January 1 of each even-numbered year and ending on December 31 of the succeeding odd-numbered year.

"Accounts of receipts and expenditures required under law to be published each year shall be published for the fiscal year or two-year fiscal period, as the case may be.".

(b)(1) Section 105 of title 1, United States Code, is amended—

(A) by striking out "year ending September 30" and inserting in lieu thereof "two-year fiscal period ending December 31"; and

(B) by striking out "calendar year" and inserting in lieu thereof "odd-numbered year in which the two-year fiscal period ends".

(2) The provisions of paragraph (1) of this subsection shall be effective with respect to Acts making appropriations for the support of the Government for any two-year fiscal period commencing on or after January 1, 1986.

(c)(1) Any law providing for an authorization of appropriations for the fiscal year 1977 or any fiscal year through the fiscal year 1986 shall be construed as referring to the fiscal year ending on September 30 of the calendar year having the same calendar year number as the fiscal year number.

(2) Any law providing for an authorization of appropriations for the fiscal year 1986 or any fiscal year thereafter shall be construed as referring to the one-year period—

(A) which is within a two-year fiscal period; and

(B) which begins on January 1 of the calendar year having the same calendar year number as such

fiscal year number and ending on December 31 of such calendar year.

(d) Effective January 1, 1986, any provision of law with respect to the Senate which contains an October 1 date which relates to the beginning of a fiscal year shall be treated as referring to January 1 of the succeeding calendar year within a two-year fiscal period, and any provision of law with respect to the Senate which contains a September 30 date which relates to the end of a fiscal year shall be treated as referring to December 31 of the same calendar year within a two-year fiscal period.

(e) As soon as practicable, the President shall prepare and submit to the Congress—

(1) after consultation with the Committees on Appropriations of the House of Representatives and the Senate, budget estimates for the United States Government for the period commencing October 1, 1985, and ending on December 31, 1985, in such form and detail as he may determine; and

(2) proposed legislation he considers appropriate with respect to changes in law necessary to provide authorizations of appropriations for that period.

(f) The Director of the Office of Management and Budget shall provide by regulation, order, or otherwise for the orderly transition by all departments, agencies, and in-

strumentalities of the United States Government and the government of the District of Columbia from the use of the fiscal year in effect on the date of enactment of this Act to the use of the new two-year fiscal period prescribed by section 1102 of title 31, United States Code. The Director shall prepare and submit to the Congress such additional proposed legislation as he considers necessary to accomplish this objective.

ACCOUNTING PROCEDURES

SEC. 6. (a) Section 1301(c) of title 31, United States Code, is amended—

(1) by striking out "a regular, annual" and inserting in lieu thereof "an"; and

(2) by striking out "fiscal year" and inserting in lieu thereof "two-year fiscal period".

(b) Section 1306 of title 31, United States Code, is amended by striking out "annually" and inserting in lieu thereof "biennially".

(c) Section 1308 of title 31, United States Code, is amended by inserting ", two-year fiscal period," after "fiscal year" each place it appears.

(d) Section 1512(a) of title 31, United States Code, is amended by striking out "deficiency or".

(e) Section 1513 of title 31, United States Code, is amended—

(1) by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period"; and

(2) by striking out "entire year" and inserting in lieu thereof "entire two-year fiscal period".

(f) Section 1515 of title 31, United States Code, is amended by striking out "deficiency or" each place it appears.

(g) Section 1534 of title 31, United States Code, is amended by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period".

(h)(1) Section 1552(a) of title 31, United States Code, is amended by striking out paragraphs (1) and (2) and inserting in lieu thereof the following new paragraphs:

"(1) The obligated balance is transferred—

"(A) for any fiscal year commencing on or after October 1, 1976 and ending before October 1, 1985, on September 30th of the 2d fiscal year after the period of availability ends; and

"(B) for the period commencing on October 1, 1985, and ending on December 31, 1985, and for any two-year fiscal period commencing on or after January 1, 1986, on December 31 of the two-year fiscal period following that period or the two-year fiscal period or

periods, as the case may be, for which the appropriation is available for obligation,

to an appropriation account of the agency responsible for paying the obligation. Amounts transferred from all appropriation accounts for the same general purpose are merged in the account for paying obligations.

"(2) The unobligated balance is withdrawn at the end of the period of availability for obligation and reverts to the Treasury or, if derived only from a special or trust fund and not otherwise provided, reverts to the fund from which derived. The withdrawal shall be made not later than—

"(A) for any fiscal year commencing on or after October 1, 1976, and ending before October 1, 1985, the November 15 occurring after the period of availability ends; and

"(B) for the period commencing on October 1, 1985, and ending on December 31, 1985, and for any two-year fiscal period commencing on or after January 1, 1986, November 15 of the year following such period or November 15 of the first even-numbered year following the end of such two-year fiscal period, as the case may be, in which the period of availability for obligation expires.

When the head of the agency decides that part of a withdrawn unobligated balance is required to pay obligations and

make adjustments, that part may be restored to the appropriate account.".

(2) Section 1552(c) of title 31, United States Code, is amended by inserting "or two-year fiscal period, as the case may be," after "fiscal year".

(3) Section 1552(d) of title 31, United States Code, is amended by striking out "2d complete fiscal year after the fiscal year" and inserting in lieu thereof "two-year fiscal period after the two-year fiscal period or periods".

(i) Section 1554 of title 31, United States Code, is amended by striking out "fiscal" each place it appears.

(j) Section 1555 of title 31, United States Code, is amended by striking out "2 consecutive fiscal years" and inserting in lieu thereof "a full two-year fiscal period".

(k) Subsection (d) of section 3530 of title 31, United States Code, is amended by striking out "fiscal year" each place it appears and inserting in lieu thereof "two-year fiscal period".

TECHNICAL AND CONFORMING AMENDMENTS

SEC. 7. (a) Section 2(a) of the Permanent Appropriation Repeal Act, 1934 is amended—

(1) by striking out "Effective July 1, 1935, the" and inserting in lieu thereof "The"; and

(2) by striking out "annual" and inserting in lieu thereof "biennial".

(b) Section 4 of the Permanent Appropriation Repeal Act, 1934 is amended—

(1) by striking out "Effective July 1, 1935, all" and inserting in lieu thereof "All";

(2) by striking out "annually" and inserting in lieu thereof "biennially";

(3) by striking out "one fiscal year" and inserting in lieu thereof "two-year fiscal period"; and

(4) by striking out "following fiscal year" and inserting in lieu thereof "following two-year fiscal period".

(c) Section 9 of the Permanent Appropriation Repeal Act, 1934 (24 U.S.C. 21b), is amended by striking out "fiscal year 1936 annual" and inserting in lieu thereof "two-year fiscal period beginning on January 1, 1986, biennial".

(d) Section 385c of title 25, United States Code, is amended—

(1) by striking out "August 7, 1946" and inserting in lieu thereof "December 31, 1985"; and

(2) by striking out "annually" and inserting in lieu thereof "biennially".

(e) Section 331 of title 31, United States Code, is amended—

(1) by inserting "or prior two-year fiscal period, as the case may be" after "prior fiscal year" each place it appears in subsection (a);

(2) by striking out "fiscal years" in paragraph (2) of subsection (a) and inserting in lieu thereof "two-year fiscal periods"; and

(3) by inserting "or prior two-year fiscal period, as the case may be," after "prior fiscal year" each place it appears in subsections (b) and (c).

(f) Section 1321(b) of title 31, United States Code, is amended by striking out "annual" and inserting in lieu thereof "biennial".

(g) Section 1322(a) of title 31, United States Code, is amended by striking out "September 30" and inserting in lieu thereof "December 31".

EFFECTIVE DATE

SEC. 8. The provisions of this Act and the amendments made by this Act shall take effect on the first day of the Ninety-ninth Congress, except that the amendments made by sections 3(s), 6, and 7 of this Act shall take effect on January 1, 1986.

FISCAL YEAR 1985

SEC. 9. Notwithstanding the provisions of sections 3, 4, 5, 6, 7, and 8 of this Act and the amendments made by such sections—

(1) the provisions of the Congressional Budget and Impoundment Control Act of 1974 (as such provisions were in effect on the day before the effective date of this Act) shall apply with respect to concurrent resolutions on the budget for such fiscal year, bills and resolutions providing new budget authority or new spending authority for such fiscal year, bills and resolutions authorizing the enactment of new budget authority for such fiscal year, the rescission and deferral of budget authority for such fiscal year, and the responsibilities of the Director of the Congressional Budget Office for such fiscal year; and

(2) the provisions of the Impoundment Control Act of 1974 (as such provisions were in effect on the day before the effective date of this Act) shall apply to the rescission and deferral of budget authority for the period beginning on October 1, 1985, and ending on December 31, 1985.

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